COLOR IMAGING INC
Form 10-K/A
April 08, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A
Amendment No. 1

Annual report pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

Commission file number 0-18450

COLOR IMAGING, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-3453420
(State of Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

4350 Peachtree Industrial Blvd, Suite 100
Norcross, GA 30071
(Address of Principal Executive Offices) (Zip Code)

(770) 840-1090
(770) 242-3494 Facsimile
(Registrant's Telephone Number, Including Area Code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: COMMON STOCK, $.01 par value

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required by file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates (4,601,011shares) was approximately $2,070,455 at June 30, 2004 (the last business of day of the most recently completed second fiscal quarter) based on the closing price of our common stock of $0.45.

The number of common shares outstanding as of February 18, 2005 was 12,690,305.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Note: This Amendment No. 1 on Form 10-K/A is filed for the purpose of clarifying the disclosure contained at Item 9A of the Annual Report for the year ending December 31, 2004 filed on February 22, 2005 (the "Original Filing"), concerning the conclusions of the Company's Chief Executive Officer and its Chief Financial Officer that the Company's disclosure control and procedures are effective at the reasonable assurance level as more particularly described below in this Amendment No. 1. In addition the Risk Factor, "Due to inherent limitations, our system of disclosure and internal controls and procedures may not be successful in preventing all errors or fraud, or in making all material information known in a timely manner to the appropriate management," at page 15 in Part I, has been revised to reflect the changes in Item 9A. Except for the amendments described above, this Form 10-K/A does not modify or update other disclosures in, or exhibits to, the Original Filing.

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PART I

ITEM 1. BUSINESS

OVERVIEW

Since 1989, Color Imaging, Inc. ("Color Imaging") has developed, manufactured and marketed products used in electronic printing. Color Imaging formulates and manufactures black text and specialty toners, including color and magnetic character recognition toners for numerous laser printers, facsimile machines and analog and digital photocopiers. Color Imaging's toners permit the printing of a wide range of user-selected colors and also the full process color printing of cyan, yellow, magenta and black. Magnetic character recognition toners enable the printing of magnetic characters that are required for the high-speed processing of checks and other financial documents. Color Imaging also supplies other consumable products used in electronic printing and photocopying, including toner cartridges and imaging drums.

Color Imaging has continually expanded its product line and manufacturing capabilities. This expansion has led to the creation and marketing of black text, color, magnetic character recognition and specialty toner formulations, including aftermarket toners and imaging products for printers and facsimile machines manufactured by Brother(TM), Canon(TM), Fuji-Xerox(TM), Hewlett Packard(TM), Lexmark(TM), Kyocera(TM), Minolta(TM), Okidata(TM). Color Imaging also manufactures and/or markets toners for use in Canon(TM), Gestetner(TM), Kyocera/Mita(TM), Konica(TM), Lanier(TM), Minolta(TM), Ricoh(TM), Savin(TM), Sharp(TM), Toshiba(TM), Xerox(TM) copiers. Color Imaging also offers product enhancements, including imaging supplies that enable standard laser printers to print magnetic character recognition data. Color Imaging markets branded products directly to OEMs and its aftermarket products worldwide to distributors and re-manufacturers of laser printer toner cartridges and to dealers and distributors of copier products.

Color Imaging's business is derived from a single segment, imaging supplies and related consumables, used in copiers, printers and facsimile machines. The percentage of our net sales derived from finished products, both manufactured and purchased from others for resale, for the years ended December 31, 2004, 2003 and 2002 were 80% 72% and 77%, respectively, while our sales of bulk toners and parts for the same periods were 20%, 28% and 23%, respectively. While we sell bulk toners, we believe that the net sales of finished products will continue to be the majority of our net sales. Sales to our two largest customers will continue to decline and were approximately 29% of 2004 net sales and are expected to be about 13% of 2005 net sales. These two customers both have, in the past, elected to produce themselves some of the products formerly manufactured by us, and since many of the products are older analog copier toners and developers whose sales in the marketplace are declining in general, the Company only expects to continue to sell these products to these two customers through the end of 2005. For the 2004 year, one unrelated distributor/customer of imaging supplies accounted for approximately 24% of net sales from continuing operations. For the 2003 year, two unrelated distributors/customers of imaging supplies accounted for 19% and 14% of net sales from continuing operations. For the 2002 year, these same two unrelated distributors/customers of imaging supplies accounted for 47% and 20% of net sales from continuing operations. The Company does not have a written or oral contract with any of these customers. All sales are made through purchase orders.

BACKGROUND

Color Imaging, formerly known as Advatex Associates, Inc., was incorporated in Delaware in 1987. On May 16, 2000, Advatex, Logical Acquisition Corp., Color Acquisition Corp., Logical Imaging Solutions, Inc. and Color Image, Inc. entered into a Merger Agreement and Plan of Reorganization pursuant to which Logical Acquisition Corp. merged with and into Logical Imaging Solutions and Color

Acquisition Corp. merged with and into Color Image. Pursuant to the Merger Agreement, stockholders of Logical Imaging Solutions and Color Image exchanged their shares for shares of common stock of Advatex. Logical Imaging Solutions stockholders converted their shares into shares of common stock of Advatex at the ratio of 1.84843 shares of common stock of Advatex for each one share of Logical Imaging Solutions. Color Image stockholders converted their shares into shares of common stock of Advatex at the ratio of 15 shares of common stock of Advatex for each one share of Color Image. Following the conversion of shares by Logical Imaging Solutions and Color Image stockholders, stockholders of Logical Imaging Solutions and Color Image owned approximately 85% of the outstanding shares of common stock of Advatex and stockholders of Advatex before the merger owned approximately 15% and Logical Imaging Solutions and Color Image became wholly-owned subsidiaries of Advatex. The purpose of the merger was to combine Color Image's toner and consumable expertise and manufacturing plant with Logical Imaging Solutions' advanced printing system capabilities to offer a wider product range and ensure product supply for Logical Imaging Solutions' Solution Series printing systems. Management also anticipated that the merger with a company that was subject to the Securities Exchange Act of 1934 would also permit the reorganized business to offer shares to other acquisition candidates, in lieu of cash.

On July 7, 2000, pursuant to a vote of our stockholders, we changed our name to Color Imaging, Inc. On December 31, 2000, Color Image, Inc. was merged with and into Color Imaging. On September 11, 2002, we entered into a share exchange agreement with Digital Color Print, Inc. and four of our directors to divest our wholly owned subsidiary, Logical Imaging Solutions, Inc. On September 30, 2002, the share exchange transaction was completed and Color Imaging disposed of its wholly-owned subsidiary, Logical Imaging Solutions, Inc., in a common stock share exchange with Digital Color Print, Inc., which is owned by four former directors. Since its founding in 1993, Logical Imaging Solutions, Inc.'s development efforts have focused on creating a high-speed digital variable data printing system for commercial printing applications that combines software, hardware and consumable products not only for black text for image printing but also in color. See "Discontinued Operations", and Note 3 of Notes to Financial Statements.

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RECENT DEVELOPMENTS

Last year the Company successfully introduced 100% new color toner cartridges for use in Ricoh's AP3800c copier, a 28 page per minute networked full-color copier. During the quarter ended September 30, 2004, the Company introduced color toner cartridges for Ricoh's CL5000 and CL7000 printers as well as its 1224/1232 and 2232/2238 color copiers. These Ricoh cartridges are also used by Lanier, Gestetner, Savin and by InfoTech in Europe. During the first quarter 2005 the Company plans to introduce 100% new color toner cartridges for the Ricoh CL3000 printer, Okidata C5100/C5300 printer, Konica/Minolta C350 "Bizhub," Kyocera/Mita C2230, Imagistics cm3520 and the Minolta 2002/3102 copiers. The Minolta 2002/3102 cartridges are also used by Konica, Kyocera/Mita and Imagistics. Additionally, toners for use by remanufacturers will be available for the HP9500 color printer and the Canon 3200 color copier.

Through December 31, 2004, the Company's net sales for 100% new all-in-one products were:

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	TOTA
2004	$ 158,311	$ 657,771	$ 919,197	$ 772,064	$ 2,507
2003	$ --	$ --	$ 64,414	$ 64,457	$ 128

As of December 31, 2004, the backlog of the Company for these products was $106,778.

MARKET OVERVIEW AND INDUSTRY

Color Imaging's market for imaging products is the installed base of electronic printing devices: laser printers and facsimile machines and analog and digital copiers. Color Imaging competes within this market with products supplied by the OEM manufacturers and with other suppliers of aftermarket imaging products. Additional products in this category include enhancement products that extend the capabilities of the OEM's product, such as magnetic character recognition toners that enable the printing of magnetic characters on checks and other financial documents. We market our products worldwide and regionally primarily to distributors of imaging products who sell to dealers and large end-users. To a lesser extent, we sell to OEMs, re-manufacturers and a few dealers directly.

We believe the trends in the electronic printing and photocopying industry, and of original equipment manufacturers of these devices, are (1) the introduction of products utilizing digital and color printing technologies as opposed to analog and black text printing, (2) offering business color printing solutions at a cost per page that are increasingly competitive, (3) reduce the selling price of their devices while increasing their printing speed, functionality and networkability, (4) increase the technological barriers through the use of specialized toners (chemical toners incorporating polyesters and proprietary raw materials), patents and microprocessors (machine readable microchips with internet connectivity for supplies management), (5) endeavor to control the market for consumable supplies through the use of OEMs' technologies as barriers to market entry for re-manufacturers of these products or manufacturers of like, new, aftermarket products and (6) utilizing prebate (license arrangements) and recycling programs to reduce the number of OEM cartridges available for remanufacture in the aftermarket. Over time, we believe that digital printers and photocopy machines that print at speeds of up to 100 pages per minute will merge into one device, delivering multifunctional capability and color printing, that are net-workable at both lower prices and operating costs to the end user. Consumables for these devices will become increasingly difficult to remanufacture and for full-color machines take longer to bring to market, thereby reducing the market share of re-manufacturers and increasing the opportunity of increased market share for newly manufactured finished product and for color toner aftermarket suppliers, such as Color Imaging. In our experience, new aftermarket consumable products are typically 25% cheaper than OEM's consumables with like functionality - a savings to the consumer. Seeing that the aftermarket has increasingly gained acceptance as product quality has steadily improved, we believe that Color Imaging is positioning itself to take advantage of these trends.

Color Imaging's solution is, through its own technological capability and that of strategic suppliers, to develop and introduce compatible, newly manufactured, aftermarket products, ahead of other aftermarket competitors, at a price significantly below that of the OEM and make these products increasingly available through distribution channels closer to the end-user.

GROWTH STRATEGY

Our strategy for growing revenue and operating profit is to expand, including through strategic acquisition(s), our printer and copier products business. The key elements of our strategy are (1) increasing vertical integration by supplying complete toner and cartridge devices, (2) capitalizing on our research and development expertise of producing specialty, color and digital copier and or multifunctional device toners, (3) exploiting the efficiencies associated with the investment made in manufacturing facilities, (4) expanding our sources for products from strategic suppliers that we can add value to or resell that complement our product lines, (5) expanding into new geographic markets to customers in the United States and Europe, and (6) broadening our sales channels.

Color Imaging's development of new toner products is focused on providing an aftermarket product for electronic printing devices that achieves a high level of market acceptance. Color Imaging endeavors to offer equivalent toner products with equal or better quality at lower prices than the OEM's toner product.

Color Imaging is committed to increasing the value added of its toner products to the end user by providing not only the toners but also the toner cartridge or canister that is compatible with the OEM's equipment. Color Imaging believes that by developing toner cartridge and canister devices for specific electronic printing or copying machines, and integrating those devices with compatible toners, the market for Color Imaging's toner products will expand. Color Imaging believes that this approach will also result in increased gross margins.

Color Imaging will continue to emphasize its high margin specialty toner capability, primarily color toners, while providing lower margin MICR and black text toners in commodity bulk to a few customers. The bulk quantity of MICR black text toners is currently being offered to maximize the efficiencies of Color Imaging's manufacturing plant. The availability of this complete research and development and manufacturing facility allows for the continued expansion of specialty, particularly color, toner products.

During 2005, Color Imaging expects to increase its sales of higher margin digital, color toners and substantially increase the sales of new all-in-one, toner and drum cartridges for certain popular personal copiers and laser printers. The recent introduction of new color products in 2003 and 2004 and the expansion of our sales channels is expected to help Color Imaging increase revenues in 2005, offsetting the further loss of revenues from our two largest customers. While the all-in-one cartridges will be at margins lower than those realized on products utilizing our digital, color and magnetic character recognition toners, we expect these products to contribute to improved gross and net profitability during 2005.

GOALS AND FOCUS FOR THE NEXT FIVE YEARS

We are of the belief that to remain a public company and offer our stockholders both attractive value and liquidity we should have sales of at least $100 million to $150 million per year, earnings before interest, income taxes, depreciation and amortization of $10 million to $20 million and move our stock to a major exchange. We are prepared to grow our Company both internally through the introduction of uniquely competitive products as well as through mergers and or acquisitions, even though such an event could mean a change in our management or control. We have met with a specialist of the American Stock Exchange and explored the possibility of listing with American Stock Exchange when our sales, profitability and outlook are such that we would benefit from a major exchange listing. In the alternative, we have not ruled out the possibility of going private or being taken private in a merger or acquisition, should that eventuality be deemed to be in the best interest of our stakeholders.

LAST FIVE YEARS

We expanded manufacturing capacity four-fold and improved production efficiency, raised capital in a private placement and public offering, divested ourselves of an unprofitable subsidiary in which we had invested $2.3 million and have substantially moved away from low margin (commodity-like) bulk laser toner and parts products to finished copier and laser printing products, increasing margins. For the year ended December 31, 2001, our sales reached $30 million, with our three largest customers accounting for 70% (some $21 million) of those sales, and during 2004 these customers account for only about $6.3 million of our net sales, down some $14.7 million or 70% from 2001. The products sold to these customers were primarily analog copier toners and developers, and our sales to these customers of these products have rapidly declined for several reasons, including as the products are discontinued in the market. As a result of the decreasing sales to our largest customers, our total sales have declined. Challenged to replace the sales lost from our largest customers, we introduced new products and expanded our sales channels. In 2003 we were the first to introduce aftermarket, full-color, Segment 3-4, networked copier/printer/MFP toner products and expanded it from one product (4 toners) in 2003 to 4 (16 toners) during 2004. To our knowledge we are still the only source for these full-color toner products worldwide, other than the OEMs. During 2003 we also introduced 100% new complicated toner cartridges, generally referred to as all-in-one ("AIO") imaging, toner or drum cartridges with their becoming 11% of sales during 2004. As a result, we stemmed the pattern of declining sales in 2004.

PRODUCTS

Our primary product focus is full-color, 100% new, finished products for multifunctional printers/devices ("MFPs"), copiers and printers. In particular, we are concentrating on work group/networked solutions segments, complicated all in one cartridges and selected specialty toner products for certain industrial applications and for the printing of magnetic characters on checks and or financial documents. In 1999 approximately 10% of the Company's sales were derived from finished products, while, at this time, some 80% of the Company's sales are derived from finished products.

Both the full-color products and 100% new AIO are important for increasing sales, while the largest contribution to improved profitability will come from our full-color ("business color") finished toner products, without competition from others except the OEMs, for the "sweet-spot" of digital multi-functional copiers/printers. In addition, we continue to develop and offer other niche specialty products like MICR and toners for industrial applications.

WHY 100% NEW PRODUCTS AND PRODUCT TRENDS

While remanufactured or refurbished ("remanufactured") toner cartridges for use in printers generally have 30% of the market in units and 25% in dollar value and are just now being introduced for use in copiers, remanufactured cartridges have a perception with the users from past experience of being of inferior quality even though they offer a cost savings. The quality of the some 2,500 remanufacturers in the U.S. is, by its nature, inconsistent and certain cartridges cannot be readily remanufactured due to the technology utilized by the OEMs. Contributing to the perception of poorer quality for these products is the fact that remanufacturers will not always replace all of the worn parts in a particular cartridge. The dilemma is that if too few parts are changed the cartridge could fail prematurely or not deliver the required print quality, while changing all of the parts subject to wear not only increases the cost of the product but also can result in more variation in print performance to that of the OEM. While users may save 25% or more by using a remanufactured cartridge, as a result of past and existing quality issues remanufactured product have consistently enjoyed only a 30% share of the market, leaving 70% of the users buying 100% new product from the OEM. Other factors contributing the users opting for the OEM, or new product, over remanufactured includes the inconsistent availability of remanufactured cartridges and market confusion from the marketing of remanufactured cartridges as compatible, remanufactured, refurbished, new drum, 100% new parts, other descriptions, and a wide range of prices, all of which leave the user wondering what is being purchased.

Increasingly, the OEMs have moved to prevent aftermarket companies from supplying alternatives to their product. The OEMs accomplish this by increasing the technological barriers with patents, chemical toners and computer chips, and a few have used licensing arrangements (prebate programs) for their product (Lexmark and recently Dell Computers) to make the remanufacture of their cartridges illegal. In addition, recycle programs designed to get the OEM's cartridge back from the user, effectively keeping it away from remanufacturers, are growing worldwide. While recycle programs are touted as being protective of the environment, and they are, their effect is to reduce competition from remanufacturers by taking cartridges off the market. On the other hand, a 100% new product priced lower than the OEM and competitively with remanufactured cartridges, redesigned so as not to infringe on the OEM's intellectual property, is not subject to many of the above mentioned problems. Further, with our improved financial strength, significant trade support from our affiliated foreign supplier and expected profitability of our color products, we believe we will not need additional financial resources to realize our goals, excepting, perhaps, the needs that may arise should we be successful in identifying and completing a merger or acquisition.

MARKETING AND SALES

While we have changed our product mix from almost entirely bulk toners and parts to now primarily finished products, we have also expanded our sales channels over the last five years from almost solely unfinished printer products sold to domestic remanufacturers, and a few distributors serving them, to distributors and dealers worldwide of finished copier and printer products, including acquiring large private label arrangements (OEM and distributor). As a result our international sales have increased from approximately 10% to approximately 45% of our total sales. We accomplished this by not only acquiring significant corporate account relationships, but by also implementing a worldwide manufacturer's representative program, recruiting industry experienced and successful executives for technical sales and marketing, and we are actively recruiting experienced sales executives with whom we can penetrate other large dealer accounts throughout the United States. Also during 2003 we obtained our first retail customers who are reselling our products in not only retail store locations but also on the internet. During 2005 we plan to substantially increase the sales of our color copier products by obtaining more large dealer customers for these products across the United States.

STOCKHOLDER VALUE, LIQUIDITY AND MERGERS OR ACQUISITIONS

Many of our stockholders invested in our private placement that closed in 2001 at prices up to $2.00 per share and in 2003 our public offering of 4,500,000 shares of our common stock at $1.35 per share. We believe that these and our other stockholders are expecting a return on their investment and a more liquid market for our stock. In 2002 we divested ourselves of a subsidiary that was losing money and had required investments by us of some $2.35 million. Its new owner acquired several hundred thousand shares of our common stock in an exchange thereafter and it and its management sold these shares in the market during 2003 and 2004, contributing to the decline in our stock price of from over $2.00 per share to the low of $0.35. Though the divestiture of the subsidiary, the completion of our public offering and our improved operations significantly improved the financial condition of the Company, our stock price languishes and on February 4, 2005, closed at $0.52. With the belief that our common shares were undervalued and represented a good use of some of the Company's working capital, in 2002 our Board of Directors approved through September 30, 2004, the repurchase of up to the lesser of $1 million or 1 million shares of our common stock. During 2004 our Board of Directors approved the extension of our stock repurchase program to September 30, 2005, and from inception through December 31, 2004, the Company has repurchased 84,700 of the Company's common shares at a cost of approximately $56,100 and at an average price of $0.66.

We continue to be interested in making our Company more successful, more quickly, through a successful acquisition or merger. In that regard our criteria generally acceptable merger/acquisition candidates include:

- An experienced and capable management team that would remain.
- A sound and improving financial condition with sales of from $25 million to $75 million and earnings before interest, income taxes, depreciation and amortization of from $4 million to $15 million.
- Products that would complement ours and offer unique competitive advantages.
- Sales channels to include office product superstores, contract stationers, corporate accounts, copy product distributers or dealers.
- Distribution not only in the United States but preferably in Europe and worldwide as well. o A core value and excellent reputation for high quality.

Our management realizes that an acquisition or merger with a company like that described above could mean changes to both the existing management of our Company, control over the Company's operations and, among other things, whether or not the Company is the surviving entity or remains a public company. With approximately 75% of our common shares controlled by directors, officers, affiliates and or their family members, management believes that these stockholders and others could be persuaded to vote for the completion of a merger or acquisition that was expected to increase in the future both stockholder value and liquidity. However, management has had preliminary discussions with a number of potential merger candidates over the last few years without coming to any conclusion on a transaction. The Company continues to experience declining or level sales. Given the high cost of maintaining a public company, management and the Board have started to explore going private as a strategic alternative.

At this time there are no definitive proposals for a transaction, either merger or going private, though we continue to seek out and engage in discussions with prospective merger or acquisition candidates and have formed a special committee of the board of directors to investigate strategic alternatives, including going private. We have found that as a result of our being public, and if we were to remain public, it is more difficult for a private company to be merged with us, since they must have 3 years of audited financial statements and be in compliance with SOX 404 by 12/31/05. There can be no assurance that any merger or going private transaction will be completed.

Management believes the strengths of the Company in any merger or acquisition transaction include:

- Our Company
  - Liquidity and profitability with a strong and improving financial condition.
  - Sales growth now, of higher margin products, overcoming the decline of OEM and private label distributor sales.
  - 15 years of toner, particularly color and specialty products, development and manufacturing experience.
  - Capability of manufacturing conventionally some chemical toners and relationships with some aftermarket chemical toner manufacturers.
  - Customers domestically and internationally.

- Our Products
  - Full-color copier toners in production and being sold without competition from other aftermarket suppliers.
  - A license to market our affiliate's 100% new, complex cartridges, including all in one imaging, toner and drum cartridges.
  - MICR and other specialty products in addition to black text toners.

- Our Organization
  - Significant toner research and development organization and capability.
  - A sales organization made up of direct employees and manufacturer's representatives that is increasing the Company's direct sales to copier dealers and select distributors.
  - A management team not dependent on a single key person.

- Our Affiliate
  - Strong product development support from our Taiwan affiliate, including empty cartridges and 100% new all in one printer and copier cartridges.
  - A potential partner for manufacturing in China at their assembly and remanufacturing facility being established in Shanghai.
  - Favorable trade terms given to us, resulting in significant working capital support.

DISCONTINUED OPERATIONS

In 2002 four of our directors, Messrs. Brennan, St. Amour, Langsam and Hollander had expressed concern over the potential restructure or reorganization of our subsidiary, Logical Imaging Solutions, and the lack of the planned use of any proceeds from our then pending offering on Form SB-2 for the further development of its technology, as they were of the opinion that Logical Imaging Solutions' business prospects demanded a greater investment. After informal discussion with Dr. Sueling Wang and Mr. Van Asperen beginning in July 2002, they submitted an informal proposal whereby a new company, Digital Color Print, Inc., to be initially owned by Messrs. Brennan, St. Amour, Langsam and Hollander, would acquire the capital stock of Logical Imaging Solutions in exchange for shares of our common stock and warrants to purchase shares of the common stock of Logical Imaging Solutions and/or Digital Color Print approximating up to 15% of its then outstanding shares.

On September 11, 2002, an agreement was reached and was later amended on September 20, 2002, to provide a minimum of $100,000 of cash to be on hand for Logical Imaging Solutions, and the number of shares to be received by Color Imaging was increased from 1.6 million to 1.7 million. In addition, Mr. Brennan agreed that his employment agreement would be immediately terminated upon the transaction's closing and severance of $6,057.69 per two-week period, plus reimbursement of health and life premium costs, formerly payable through June 10, 2003 would terminate as of March 10, 2003.

After having met all of the conditions, including the approval of the majority of the disinterested directors and having obtained a fairness opinion that indicated the transaction was fair to Color Imaging and its stockholders unaffiliated with Digital Color Print, the divestiture of Logical Imaging Solutions and the share exchange was completed on September 30, 2002. Effective upon the closing, Messrs. St. Amour, Langsam and Hollander resigned as directors of Color Imaging. Mr. Brennan had previously resigned as a director of Color Imaging effective September 10, 2002.

Based upon guidance provided by APB 29 in connection with accounting for nonmonetary transactions, the 1,700,000 million shares of our common stock exchanged for all of the shares of common stock of Logical Imaging Solutions was valued at approximately $2.68 million: the fair value (approximating the net book value) of Logical Imaging Solutions, after converting approximately $2.35 million of intercompany advances to capital, plus the transaction costs incurred. The warrants that we received for approximately 15% of Logical Imaging Solutions, or Digital Color Print, have not been assigned any value, since they are not cashless, increase from $1.50 to $2.25 and then to $3.25 per share each year over three years, expire after three years, are not registered for resale and have no current market.

Following the closing of the transaction, Digital Color Print offered to exchange shares of its common stock for shares of common stock held by our stockholders who were, per a press release of Digital Color Print, holders of record as of October 1, 2002. We were not and did not sponsor, encourage, or bear any responsibility for the offering by Digital Color Print. Conditions of the share exchange agreement included that Digital Color Print shall be solely responsible for such offering, including compliance with all applicable laws, and it shall not accept the tender of more than an aggregate of 2,600,000 shares, inclusive of the 1,700,000 of our common shares that Digital Color Print exchanged for all of the common stock of Logical Imaging Solutions. If Digital Color Print completes its intended tender offer for a total of 2.6 million shares of our issued and outstanding common stock, inclusive of the 1.7 million exchanged for all of the common stock of Logical Imaging solutions, it will have up to 900,000 shares of our publicly traded shares which it could sell in the market to fund its operations. Digital Color Print has regularly sold our common shares it received in exchange for its shares in the market throughout 2003. Further, the agreement provides that neither Logical Imaging Solutions nor Digital Color Print shall take any action in connection with their offering that could have the effect of reducing the number of our stockholders below 325. For additional information regarding this matter, please refer to our annual report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission on March 11, 2003.

PRODUCTS

Our aftermarket product net revenues for each of our fiscal years ended December

31, 2004, 2003, and 2002, by category, from continuing operations are:

Category	2004	2003	2002	Primary P
Cartridges & Bottles				
All in one	$ 2,507,343	$ 128,871	$ 0	Black text i drum cartri printers and
Photocopiers	13,965,474	11,796,402	16,580,635	Black text a digital and
Printers & Facsimiles	1,402,246	3,308,612	3,533,074	Black text, magnetic cha toners for l printing dev
Bulk Toner & Parts	3,959,766	5,823,716	7,886,600	Filling new printer or c bottles and for printers
	$21,834,829	$21,057,601	$28,000,309	

RESEARCH AND DEVELOPMENT

Our research and development activities for the past several years have focused on black text, specialty, color and magnetic character toner formulations, and more recently polyester-based toners for full-color digital printing and photocopying. Color Imaging is committed to increasing revenues through new product introductions which requires research and development expenditures, innovative designs, significant development and testing activities and functional solutions.

For the twelve months ended December 31, 2004, our research and development expenditures were approximately $1,172,000, or about the same as they were for the prior year. For the twelve months ended December 31, 2003, our research and development expenditures increased approximately $229,000, or 24%, to $1,176,000 from approximately $947,000 for the twelve months ended December 31, 2002.

It is necessary to make strategic decisions from time to time as to which technologies will produce products with the greatest future potential. Occasionally, a customer will ask Color Imaging to develop toner products for their exclusive resale, and in that event the customer generally will financially support Color Imaging's development activities. In turn, Color Imaging also will occasionally work with suppliers to develop proprietary technology for Color Imaging's exclusive use. These strategic relationships have benefited us in the past, and we intend to continue to pursue such relationships for new products.

Our chemists and consultants are focused on development of imaging products and manufacturing systems that will increase efficiency, lower production costs or improve the quality of our products. With certain products, we may elect to purchase key components from third party suppliers, such as toner, bottles and or print cartridges. We cannot predict whether we can continue to develop the technologically advanced products required to remain competitive or that such products will achieve market acceptance.

INTELLECTUAL PROPERTY

Color Imaging relies upon trade secrets and unpatented proprietary technology. Color Imaging seeks to maintain the confidentiality of such information by requiring employees, consultants and other parties to sign confidentiality agreements and by limiting access by parties outside Color Imaging to such information. There can be no assurance, however, that these measures will prevent the unauthorized disclosure or use of this information or that others will not be able to independently develop such information. Additionally, there can be no assurance that any agreements regarding confidentiality and non-disclosure will not be breached, or, in the event of any breach, that adequate remedies would be available to Color Imaging.

We seek to protect technology, inventions and improvements that we consider important through the use of trade secrets. While we do not believe that any of our products infringe any valid claims of patents or other proprietary rights held by third parties, there can be no assurance that these products do not infringe any patents or other proprietary rights held by third parties. If an infringement claim were made, the costs incurred to defend the claim could be substantial and adversely affect us, even if we were ultimately successful in defending the claim. If our products were found to infringe any proprietary right of a third party, we could be required to pay significant damages or license fees to the third party or cease production. Litigation may also be necessary to enforce patent rights held by us, or to protect trade secrets or techniques owned by us. Any such claims or litigation could result in substantial costs and diversion of effort by management.

Specifically, we believe patent protection is of limited usefulness for our technologies, because competitors have the ability (even if we had a patent) to develop substantially equivalent technology. Therefore, we rely on trade secrets and other unpatented proprietary technology. There can be no assurance that we can meaningfully protect our rights in such unpatented proprietary technology or that others will not independently develop substantially equivalent proprietary products or processes or otherwise gain access to our proprietary technology. We also seek to protect our trade secrets and proprietary know-how, in part, with confidentiality agreements with employees and consultants. There can be no assurance that the agreements will not be breached, that we will have adequate remedies for any breach or that our trade secrets will not otherwise become known to or independently developed by competitors.

MARKETING AND DISTRIBUTION

We market and distribute our products worldwide through both our direct sales force and manufacturer's representatives. Color Imaging's products are marketed primarily to distributors, OEMs, dealers and for laser and MICR products primarily to re-manufacturers.

In the twelve months ended December 31, 2004, 2003, and 2002, net revenues primarily generated from the sale of finished consumable products for electronic printers and photocopying machines, comprised approximately 80%, 72% and 72% of net sales, respectively. For the twelve months ended December 31, 2004, 2003, and 2002, net sales to our largest imaging products customer accounted for 24%, 29% and 47%, respectively. Though our sales are on purchase orders, this customer typically issues purchase orders three months in advance of the product delivery date and provides us with an additional two-month rolling forecast. We expect our sales to our largest customer to further decreased during the year ended December 31, 2005.

We believe that our operations are in a single industry segment involving the development and manufacture of products used in electronic printing. All of our assets are domestic. Our sales to unaffiliated customers by geographic region are as follows:

	2004		2003		2002	
United States	$ 11,922,183	55%	$ 12,507,490	59%	$ 17,728,982	63%
Europe/East Europe	5,539,810	25%	4,416,152	21%	5,638,161	20%
Mexico	2,488,963	11%	2,502,831	12%	2,477,862	9%
Asia/Southeast Asia	1,026,517	5%	814,387	4%	1,253,862	5%
Other	857,356	4%	816,741	4%	901,442	3%
Total	$ 21,834,829	100%	$ 21,057,601	100%	$ 28,000,309	100%

COMPETITION

The markets for our products are competitive and subject to rapid changes in technology. Color Imaging in particular competes principally on the basis of quality, flexibility, and service with a pricing strategy typically 25% lower than that of the OEM.

Color Imaging's competitors in the toner market include large businesses with significantly greater resources in the high-volume commodity toner market, as well as smaller companies in the specialty, color and magnetic character toner markets. In addition, other companies offer remanufactured toner cartridges and printer parts that are lower priced.

Color Imaging's strategy requires that it continue to develop and market new and innovative products at competitive prices. New product announcements by our principal competitors, however, can have, and in the past have had, a material adverse effect on our financial results. Such new product announcements can quickly undermine any technological competitive edge that one manufacturer may enjoy over another and set new market standards for quality, speed and function. Furthermore, knowledge in the marketplace about pending new product announcements by our competitors may also have a material adverse effect on us inasmuch as purchasers of these products may defer purchasing decisions until the announcement and subsequent testing of such new products.

In recent years, Color Imaging and its principal competitors, which have significantly greater financial, marketing and technological resources than Color Imaging, have regularly lowered prices on both printer and copier imaging supplies and are expected to continue to do so in the future. Color Imaging is vulnerable to these pricing pressures which, if not mitigated by cost and expense reductions, may result in lower profitability and could jeopardize our ability to grow or maintain market share. We expect that, as we compete more successfully with our larger competitors, our increased market presence may attract more frequent challenges, both legal and commercial, from our competitors, including claims of possible intellectual property infringement.

Canon(TM), Xerox(TM) and Ricoh(TM) are the market leaders in the toner market whose aggregate sales we believe represent approximately 75% to 85% of worldwide toner sales. As with our other products, if pricing pressures are not mitigated by cost and expense reductions, our ability to maintain or build market share and profitability could be adversely affected.

Like certain of our competitors, Color Imaging is a supplier of laser printer and MICR toners. We cannot assure you that we will be able to compete effectively for a share of this business. In addition, we cannot assure you that our competitors will not develop new compatible laser printer or MICR products that may perform better or sell for less than our products. Independent manufacturers compete for the aftermarket business under either their own brand, private label, or both, using price, aggressive marketing programs, and flexible terms and conditions to attract customers. Depending on the product, prices for compatible products produced by other manufacturers are offered below our prices, in some cases significantly below our prices.

MANUFACTURING

We operate a toner manufacturing facility in Norcross, Georgia that we moved into during 1999 and 2000. We have made significant capital investment in this facility to increase production capacity and improve manufacturing efficiencies to lower processing costs of our toner products. The installation of additional equipment was completed in the second quarter 2002, and the equipment was placed in service during the fourth quarter of 2002. This equipment is an integral part of our plan to further increase production capacity, improve quality and efficiency and to significantly lower the costs of our toner products. At this time we plan to increase our color toner manufacturing capacity during 2005. Our goal for the last three years has been to reduce average toner product costs by one-half, particularly for black text toner products, in response to management's assessment of the continuing price reductions for these products in the marketplace.

MATERIALS AND SUPPLIERS

We procure a wide variety of materials and components for use in our manufacturing processes, including raw materials, such as chemicals and resins, bottles, caps, cartridges and boxes. Although many of these materials and components are available from multiple sources, we often utilize preferred supplier relationships to ensure more consistent quality, cost and delivery. Often Color Imaging's toner formulations are dependent on one or more materials produced by only one vendor, since the formula was developed based on that material's unique characteristics. Alternative materials exist, but the differences in performance characteristics could require Color Imaging to modify the original formula and/or its manufacturing processes to obtain a marketable product based on the new material. Further, some chemicals are only available from one supplier. Should these chemicals not be available from any one of these suppliers, there can be no assurance that production of certain of our products would not be disrupted. Some of our products incorporate technologies that are available from a particular supplier that has been approved by one of our customers. Approximately 24% and 34% of our sales for the years ended December 31, 2004 and 2003 were derived from products limited to a specific supplier. For the years ended December 31, 2004 and 2003, we purchased approximately 34% and 43% of our materials and supplies from that same supplier. We do not have a long-term agreement with this supplier, and the supplier may raise its prices at any time. In the event that these materials and supplies, as well as those other raw materials that are sourced from a single supplier, are not available to us, our production could be disrupted. Such a disruption could materially harm our business.

BACKLOG

Our backlog decreased approximately $520,000 or 21% to $1.95 million as of December 31, 2004, from $2.47 million at the same date of the previous year. The decrease in the backlog was primarily due to decreased orders from our largest customer. While the backlog for our copier product decreased 26% as of December 31, 2004 from the same period in 2003, our backlog for printer products decreased 5%. Since our largest customer purchases copier products from us and generally gives us most of our orders for future delivery, and the sale of copier products to them will continue to decline, our backlog for copier products is expected to further decline in 2005. Our backlog decreased approximately $718,000 or 23% to $2.5 million as of December 31, 2003, from $3.2 million at the same date of the previous year. The decrease in the backlog was primarily due to decreased orders from our two largest customers. While the backlog for our copier product decreased 30% as of December 31, 2003 from the same period in 2002, our backlog for printer products increased 22%. The orders included in our backlog are generally credit approved customer purchase orders usually scheduled to ship in the next twelve months. Color Imaging schedules production of its products based on order backlog, customer commitments and forecasts and demand. However, customers may delay delivery of products or cancel orders suddenly and without sufficient notice, subject to possible cancellation penalties. Due to possible customer changes in delivery schedules and cancellations of orders, and the fact that not all of our customers give us orders for future delivery, Color Imaging's backlog at any particular date is not necessarily indicative of actual sales for any succeeding period. Delays in delivery schedules and/or a reduction of backlog during any particular reporting period could have a material adverse effect on our business and results of operations. In addition, a backlog does not provide any assurance that Color Imaging will realize a profit from those orders or indicate in which period revenue will be recognized. See the disclosures in Item 7 of this report for a breakdown of our backlog and net sales by product category.

GOVERNMENT REGULATION

Color Imaging's manufacturing operations are subject to laws and regulations relating to environmental matters that impose limitations on the discharge of pollutants into the air, water and soil and establish standards for the treatment, storage and disposal of solid and hazardous wastes, and Color Imaging is required to have a permit in order to conduct various aspects of its business. The Air Protection Branch of the State of Georgia's Department of Natural Resources Environmental Protection Division issued a permit to Color Imaging in 2000 to construct and operate a copier and printer toner manufacturing facility at our headquarters. The permit is conditioned upon compliance by us with the provisions of the Georgia Air Quality Act, and specifically the Rules, Chapter 391-3-1, in effect. In addition to operating and maintaining the equipment, in a manner consistent with good air pollution control practice to minimize emissions, we must maintain records, conduct tests, and comply with certain allowable emissions and operational limitations. The permit is subject to revocation, suspension, modification or amendment for cause, including evidence of our noncompliance. Compliance with these laws and regulations in the past has not had a material adverse effect on our capital expenditures, earnings or competitive position. However, there can be no assurance that future changes in environmental laws, regulations or the criteria required to obtain or maintain necessary permits will not have a material adverse effect on us.

EMPLOYEES

As of December 31, 2004, 2003 and 2002 the Company's full and part-time employees, including those with advanced degrees and those engaged in operations (manufacturing and quality assurance), research and development ("R&D"), sales and marketing or general and administrative ("SG&A") positions were as follows:

Calendar Year-end	Total Number of Employees	No. Full & Part Time		No. with Advanced Degrees		
		Full-time	Part-time	PhD	Masters	Operati
2004	81	79	2	5	11	36
2003	91	91		5	9	41
2002	76	75	1	4	9	47

None of our employees is represented by a labor union or is covered by a collective bargaining agreement. We have not experienced any work stoppages and consider our relations with employees to be good.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

RISK FACTORS

RISKS RELATED TO OUR BUSINESS:

OUR BUSINESS DEPENDS ON A LIMITED NUMBER OF CUSTOMERS.

For the twelve months ended December 31, 2004, one customer accounted for approximately 24% of our net sales. We do not have a contract with this customer and all of the sales to them are made through purchase orders. While our products typically go through the customer's required qualification process, which we believe gives us an advantage over other suppliers, this does not guarantee that the customer will continue to purchase from us. The loss of this customer, including through an acquisition, other business combination or the loss by them of business from their customers could have a substantial and adverse effect on our business. We have in the past, and may in the future, lose one or more major customers or substantial portions of our business with one or more of our major customers. If we do not sell products or services to customers in the quantities anticipated, or if a major customer reduces or terminates its relationship with us, market perception of our products and technology, growth prospects, and financial condition and results of operation could be harmed.

OUR RELIANCE ON SALES TO A FEW MAJOR CUSTOMERS AND GRANTING CREDIT TO THOSE CUSTOMERS PLACES US AT FINANCIAL RISK.

As of December 31, 2004, receivables from one customer comprised 12% of accounts receivable. A concentration of our receivables from a small number of customers places us at risk should these receivables become uncollectible. If any one or more of our major customers is unable to pay us it could adversely affect our results of operations and financial condition. Color Imaging attempts to manage this credit risk by performing credit checks, requiring significant partial payments prior to shipment where appropriate, and actively monitoring collections.

APPROXIMATELY 29% OF OUR BUSINESS DEPENDS ON A FOREIGN SUPPLIER APPROVED BY TWO OF OUR CUSTOMERS TO WHOM WE HAVE ISSUED A LETTER OF CREDIT.

Some of our products incorporate technologies that are available from a particular foreign supplier that has been approved by two of our customers. Approximately 29% of our sales for the twelve months ended December 31, 2004 were derived from products limited to a specific foreign supplier. For the twelve months ended December 31, 2004, we purchased 34% of our supplies from that same foreign supplier. We do not have a written agreement with this or any other supplier. We rely on purchase orders. To secure the payment of moneys due this same foreign supplier we have caused our bank to issue a standby letter of credit in the amount of $1.5 million, amended and reduced to $1 million on January 5, 2005, that expires June 30, 2005. We expect to renew the letter of credit prior to its expiration. Should we be unable to obtain the necessary materials from this foreign supplier, including as a result of our not being able to modify, extend or renew the letter of credit upon expiry, product shipments could be prevented or delayed, which could result in a loss of sales. If we are unable to fulfill existing orders or accept new orders because of a shortage of materials, we may lose revenues and risk losing customers.

IF OUR CRITICAL SUPPLIERS FAIL TO DELIVER SUFFICIENT QUANTITIES OF MATERIALS OR PRODUCTS IN A TIMELY AND COST-EFFECTIVE MANNER IT COULD NEGATIVELY AFFECT OUR BUSINESS.

We use a wide range of materials in the manufacture of our products, and we use numerous suppliers to supply materials and certain finished products. We generally do not have guaranteed supply arrangements with our suppliers. Because of the variability and uniqueness of customers' orders, we do not maintain an extensive inventory of materials for manufacturing or resale. Key suppliers include providers of special resins, toners and toner related products, including those from our largest supplier who is also foreign, and our injection molder affiliate that provides plastic bottles, cartridges and related components designed to avoid the intellectual property rights of others.

Although we make reasonable efforts to ensure that raw materials, toners and certain finished products are available from multiple suppliers, this is not always possible; accordingly, some of these materials are being procured from a single supplier or a limited group of suppliers. Many of these suppliers are outside the United States, including our largest supplier, resulting in longer lead-times for many important materials, which could cause delays in meeting shipments to our customers. We have sought, and will continue to seek, to minimize the risk of production interruptions and shortages of key materials and products by:

- selecting and qualifying alternative suppliers for key materials and products;
- monitoring the financial stability of key suppliers; and
- maintaining appropriate inventories of key materials and products.

There can be no assurance that results of operations will not be materially and adversely affected if, in the future, we do not receive in a timely and cost-effective manner a sufficient quantity of raw materials, toners or finished products to meet our production or customer delivery requirements.

OUR SUCCESS IS DEPENDENT ON OUR ABILITY TO UTILIZE AVAILABLE MANUFACTURING CAPACITY.

From 1999 through 2000, we expanded our manufacturing capacity by acquiring new manufacturing equipment and moving to a larger location. Thereafter we further expanded our capacity by placing in service additional manufacturing equipment during 2002 and 2003, and we continue to make investments in and acquire and install new factory equipment. To fully utilize these new additions to the factory, new formulations for toner have to be developed specifically for manufacture on this new equipment or orders for larger quantities of existing toners must be obtained. While we have been successful in developing formulas for new equipment in the past and increasing sales of many of our existing toner products, our continued success will be dependent on our ability to develop additional formulations or increase our sales from existing formulations and manufacture the toners with the new equipment to achieve a reduction in production costs. We cannot assure you that we will be successful in developing all of the formulations needed in the future or that we will be able to manufacture toner at a lower production cost on a regular basis or that such products will achieve market acceptance. If we are not successful in increasing the sales of our manufactured products, or if our existing sales from manufactured products declines, our business will be materially and adversely affected.

OUR SUCCESS IS DEPENDENT ON OUR ABILITY TO SUCCESSFULLY DEVELOP, OR USE OR HAVE ACCESS TO THIRD PARTIES', INTELLECTUAL PROPERTY OR PRODUCTS THAT WE CAN COMMERCIALIZE AND THAT ACHIEVE MARKET ACCEPTANCE.

Our success depends in part on our ability to develop proprietary toner formulas and manufacturing processes, maintain trade secret protection and operate without infringing the proprietary rights of others. Future claims of intellectual property infringement could prevent us from obtaining products incorporating the technology of others and could otherwise adversely affect our operating results, cash flows, financial position or business, as could expenses incurred enforcing intellectual property rights against others or defending against claims that our products or those acquired from others infringe the intellectual property rights of another.

Success in the aftermarket imaging industry depends, in part, on developing consumable products that are compatible with the printers, photocopiers and facsimile machines made by the OEMs, and that have a selling price less than that of like consumable supplies offered by the OEM. For example, if the OEMs introduce chemical toners with better imaging characteristics and higher yields, microprocessor chips that communicate between the toner cartridge and the device, or introduce products using patented or other proprietary technologies, then the aftermarket industry has to respond with ongoing development programs to offer compatible products that emulate the OEMs' without infringing upon the OEM's intellectual property.

Technical innovations are inherently complex and require long development cycles and appropriate professional staffing. Our future business success depends on our ability, and those of critical suppliers, to develop and introduce new products that successfully address the changing technologies of the OEMs, meet the customer's needs and win market acceptance in a timely and cost-effective manner. If we do not develop and introduce products compatible with the OEM's technologies in a timely manner in response to changing market conditions or customer requirements, our business could be seriously harmed.

The challenges we face in implementing our business model include establishing market acceptance of existing products and successfully developing or acquiring new products for resale that achieve market acceptance, as well as obtaining additional channels through which to sell various products. We must successfully commercialize the products that are currently being developed, such as our color and magnetic character recognition toner for printers and black text and color toners for new digital copiers and continue to acquire from third parties all-in-one cartridges, parts, materials and finished product that can be integrated into finished products or sold as our products. While we have successfully developed toners in the past and are in the late stages of developing and testing several new toners, we have not commercialized many of the toners that are under development. While we have in the past acquired from third parties materials and products that we have been successful in selling, there can be no assurance that parts, materials or products for new products will be available or will achieve market acceptance, or that we will be successful in increasing our sales to large regional, national or international retailers. If we fail to successfully commercialize products we develop or acquire for resale from third parties, or if these products fail to achieve market acceptance, our financial condition and results of operation would be seriously harmed.

OUR BUSINESS MIGHT BE ADVERSELY AFFECTED BY OUR DEPENDENCE ON FOREIGN BUSINESS.

We sell a significant amount of product to customers outside of the United States. International sales accounted for 45% and 41% of net sales in the twelve months ended December 31, 2004 and 2003, respectively. We expect that shipments to international customers will continue to account for a material portion of net sales. During the twelve month period ended December 31, 2004, our sales were made to customers outside the United States as follows:

- Europe (including Eastern Europe) - 25%
- Mexico - 11%
- Asia/Southeast Asia - 5%
- Other - 4%

Most of our products sold internationally, including those sold to our larger international customers, are on open account, giving rise to the added costs of collection in the event of non-payment. On foreign customer accounts other than those we feel are credit worthy and justify open credit terms with us, we mitigate the risk of non-payment and collection of foreign accounts receivable by obtaining foreign credit insurance on those customers who qualify. Further, should a product shipped overseas be defective, the Company would experience higher costs in connection with a product recall or return and replacement.

Most of our sales are priced in U.S. dollars, but because we began selling products in Europe denominated in Euros during 2001, fluctuations in the Euro could also cause our products there to become less affordable or less competitive or we may sell some products at a loss to otherwise maintain profitable business from a customer. We recorded gains of $154,583, $149,110 and $2,858 during the twelve month periods ended December 31, 2004, 2003 and 2002, respectively, as a result of foreign currency transactions.

While our business has not been materially affected in the past by foreign business or currency fluctuations, because of our increasing dependence on international revenues, our operating results could be negatively affected by a continued or additional decline in the economies of any of the countries or regions in which we do business. Periodic local or international economic downturns, trade balance issues, changes to duties, tariffs or environmental regulations, political instability and fluctuations in interest and currency exchange rates could negatively affect our business and results of operations.

We cannot assure you that these factors will not have a material adverse effect on our international sales and would, as a result, adversely impact our results of operation and financial condition.

OUR RESULTS OF OPERATIONS MAY BE MATERIALLY HARMED IF WE ARE UNABLE TO RECOUP OUR INVESTMENT IN RESEARCH AND DEVELOPMENT.

The rapid change in technology in our industry requires that we continue to make investments in research and development in order to not only develop technologies that function like the OEMs' and do not infringe on the OEMs' intellectual property rights, but we must also enhance the performance and functionality of our products and keep pace with competitive products and satisfy customer demands for improved performance, features, functionality and costs. There can be no assurance that revenues from future products or product enhancements will be sufficient to recover the development costs associated with such products or enhancements or that we will be able to secure the financial resources necessary to fund future development. Research and development costs typically are incurred before we confirm the technical feasibility and commercial viability of a product, and not all development activities result in commercially viable products. In addition, we cannot ensure that these products or enhancements will receive market acceptance or that we will be able to sell these products at prices that are favorable to us. Our business could be seriously harmed if we are unable to sell our products at favorable prices or if the market in which we operate does not accept our products.

OUR INTELLECTUAL PROPERTY PROTECTION IS LIMITED.

We do not rely on patents to protect our proprietary rights. We do rely on a combination of laws such as trade secrets and contractual restrictions such as confidentiality agreements to protect proprietary rights. Despite any precautions we have taken:

- laws and contractual restrictions might not be sufficient to prevent misappropriation of our technology or deter others from developing similar technologies; and
- policing unauthorized use of our products is difficult, expensive and time-consuming and we might not be able to determine the extent of this unauthorized use.

Therefore, there can be no assurance that we can meaningfully protect our rights in such unpatented proprietary technology or that others will not independently develop substantially equivalent proprietary products or processes or otherwise gain access to the proprietary technology. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without paying us, which could significantly harm our business.

WE DEPEND ON THE EFFORTS AND ABILITIES OF CERTAIN SENIOR MANAGEMENT AND OTHER KEY PERSONNEL TO CONTINUE OUR OPERATIONS AND GENERATE REVENUES.

Our success depends to a significant extent on the continued services of senior management and other key personnel. While we do have confidentiality agreements with executive officers and certain other key individuals, we have few employment agreements and either party upon giving the required notice may terminate them. The loss of the services of any of our executive officers or other key employees could harm our business. Our success also depends on our ability to attract, retain and motivate highly skilled employees. Competition for qualified employees in the industries in which we operate is intense. If we fail to hire and retain a sufficient number of qualified employees, our business will be adversely affected.

WE HAVE A SINGLE MANUFACTURING FACILITY AND WE MAY LOSE REVENUE AND BE UNABLE TO MAINTAIN OUR CLIENT RELATIONSHIPS IF WE LOSE OUR PRODUCTION CAPACITY.

We manufacture all of the products we sell in our existing facility in Norcross, Georgia. If our existing production facility becomes incapable of manufacturing products for any reason, we may be unable to meet production requirements, we may lose revenue and we may not be able to maintain our relationships with our customers. Without our existing production facility, we would have no other means of manufacturing products until we were able to restore the manufacturing capability at our facility or develop an alternative manufacturing facility. Although we carry business interruption insurance to cover lost revenue and profits in an amount we consider adequate, this insurance does not cover all possible situations. In addition, our business interruption insurance would not compensate us for the loss of opportunity and potential adverse impact on relations with our existing customers resulting from our inability to produce products for them.

OUR ACQUISITION STRATEGY MAY PROVE UNSUCCESSFUL.

We intend to pursue acquisitions of businesses or technologies that management believes complement or expand the existing business. Acquisitions of this type involve a number of risks, including the possibility that the operations of any businesses that are acquired will be unprofitable or that management attention will be diverted from the day-to-day operation of the existing business. An unsuccessful acquisition could reduce profit margins or otherwise harm our financial condition, by, for example, impairing liquidity and causing non-compliance with lending institution's financial covenants. In addition, any acquisition could result in a dilutive issuance of equity securities, our going private, the incurrence of debt or the loss of key employees. Certain benefits of any acquisition may depend on the taking of one-time or recurring accounting charges that may be material. We cannot predict whether any acquisition undertaken by us will be successfully completed or, if one or more acquisitions are completed, whether the acquired assets will generate sufficient revenue to offset the associated costs or other adverse effects. We are exploring the possibility of a strategic merger. Any such merger could result in a change in control of the Company. There can be no assurance that any merger or acquisition could be successfully completed. In addition, the Company could incur expenses in exploring a merger or acquisition transactions that are not completed.

COMPLIANCE WITH GOVERNMENT REGULATIONS MAY CAUSE US TO INCUR UNFORESEEN EXPENSES.

Our black text, color and magnetic character toner supplies and manufacturing operations are subject to domestic and international laws and regulations, particularly relating to environmental matters that impose limitations on the discharge of pollutants into the air, water and soil and establish standards for treatment, storage and disposal of solid and hazardous wastes. In addition, we are subject to regulations for storm water discharge, and as a requirement of the State of Georgia have developed and implemented a Storm Water Pollution Prevention Plan. We are also required to have a permit issued by the State of

Georgia in order to conduct various aspects of our business. Compliance with these laws and regulations has not in the past had a material adverse affect on our capital expenditures, earnings or competitive position. There can be no assurance, however, that future changes in environmental laws or regulations, or in the criteria required to obtain or maintain necessary permits, will not have a material adverse affect on our operations.

OUR QUARTERLY OPERATING RESULTS FLUCTUATE AS A RESULT OF MANY FACTORS.

Our quarterly operating results fluctuate due to various factors. Some of these factors include the mix of products sold during the quarter, the availability and costs of raw materials or components, the costs and benefits of new product introductions, and customer order and shipment timing. Because of these factors, our quarterly operating results are difficult to predict and are likely to vary in the future.

DUE TO INHERENT LIMITATIONS, OUR SYSTEM OF DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES MAY NOT BE SUCCESSFUL IN PREVENTING ALL ERRORS OR FRAUD, OR IN MAKING ALL MATERIAL INFORMATION KNOWN IN A TIMELY MANNER TO THE APPROPRIATE MANAGEMENT.

Though we have concluded with reasonable assurance that our books, records and accounts are kept in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets, transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, receipts and expenditures and access to assets is permitted in accordance with authorizations of management and directors of the Company, we do not have internal auditors and we depend on a small staff with which it is sometimes difficult to segregate certain duties or to document our practices in policies and procedures. Further, notwithstanding management's

conclusions, the effectiveness of a system of disclosure and internal controls and procedures is subject to certain inherent limitations, including cost and staffing limitations, judgments used in decision making, assumptions regarding the likelihood of future events, soundness of internal controls and fraud. Due to such inherent limitations, the Company's system of disclosure or internal controls and procedures may not be successful in preventing all errors or fraud, or in making all material information known in a timely manner to the appropriate management. In addition, we have not completed our policy and procedure documentation and testing of internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act. If we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

RISKS RELATING TO OUR INDUSTRY:

WE OPERATE IN A COMPETITIVE AND RAPIDLY CHANGING MARKETPLACE.

There is significant competition in the toner and consumable imaging products industry in which we operate. In addition, the market for digital color printers and copiers and related consumable products is subject to rapid change and the

OEM technologies are becoming increasingly difficult barriers to market entry. Many competitors, both OEMs and other after market firms, have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. These competitors may be able to devote substantially more resources to developing their business than we can. Our ability to compete depends upon a number of factors, including the success and timing of product introductions, marketing and distribution capabilities and the quality of our customer support. Some of these factors are beyond our control. In addition, competitive pressure to develop new products and technologies could cause our operating expenses to increase substantially.

THE IMAGING SUPPLIES INDUSTRY IS COMPETITIVE AND WE ARE RELATIVELY SMALL IN SIZE AND HAVE FEWER RESOURCES IN COMPARISON WITH MANY OF OUR COMPETITORS.

Our industry includes large original equipment manufacturers of printing and photocopying equipment and the related imaging supplies, as well as other manufacturers and resellers of aftermarket imaging supplies, with substantial resources to support customers worldwide. Our future performance depends, in part, upon our ability to continue to compete successfully worldwide. All of the original equipment manufacturers and many of our other competitors are diversified companies with greater financial resources and more extensive research, engineering, manufacturing, marketing and customer service and support capabilities than we can provide. We face competition from companies whose strategy is to provide a broad array of products, some of which compete with the products that we offer. These competitors may bundle their products in a manner that may discourage customers from purchasing our products. In addition, we face competition from smaller emerging imaging supply companies whose strategy is to provide a portion of the products and services that we offer. Loss of competitive position could impair our prices, customer orders, revenues, gross margins, and market share, any of which would negatively affect our operating results and financial condition. Our failure to compete successfully with these other companies would seriously harm our business. There is risk that larger, better-financed competitors will develop and market more advanced products than those that we currently offer or may be able to offer, or that competitors with greater financial resources may decrease prices thereby putting us under financial pressure. The occurrence of any of these events could have a negative impact on our revenues.

OUR PRODUCTS HAVE SHORT LIFE CYCLES AND ARE SUBJECT TO FREQUENT PRICE REDUCTIONS.

Rapidly evolving and increasingly difficult technologies, frequent new product introductions and significant price competition characterize the markets in which we operate. Consequently, our products have short life cycles, and we must frequently reduce prices in response to product competition. Our financial condition and results of operations could be adversely affected if we are unable to manufacture new and competitive products in a timely manner. Our success depends on our ability to develop and manufacture technologically advanced products, price them competitively, and achieve cost reductions for existing products. Technological advances require sustained research and development efforts, which may be costly and could cause our operating expenses to increase substantially.

OUR FINANCIAL PERFORMANCE DEPENDS ON OUR ABILITY TO SUCCESSFULLY MANAGE INVENTORY LEVELS, WHICH IS AFFECTED BY FACTORS BEYOND OUR CONTROL.

Our financial performance depends in part on our ability to manage inventory levels to support the needs of new and existing customers. Our ability to maintain appropriate inventory levels often depends on factors beyond our control, including unforeseen increases or decreases in demand for our products and production and supply difficulties. Demand for our products can be affected by product introductions or price changes by competitors or by us, the life cycle of our products, or delays in the development or manufacturing of our products. Our operating results and ability to increase the market share of our products may be adversely affected if we are unable to address inventory issues on a timely basis.

RISKS RELATING TO OWNING OUR COMMON STOCK:

OUR OFFICERS AND DIRECTORS BENEFICIALLY OWN APPROXIMATELY 28% OF THE OUTSTANDING SHARES OF COMMON STOCK, AND AN AFFILIATE OWNS 35% OF OUR COMMON STOCK, ALLOWING THESE STOCKHOLDERS TO CONTROL MATTERS REQUIRING APPROVAL OF THE STOCKHOLDERS.

As a result of such ownership, and potential increased ownership, by our officers and directors, other investors will have limited control over matters requiring approval by the stockholders, including the election of directors. Such concentrated control may also make it difficult for the stockholders to receive a premium for their shares of our common stock in the event we enter into transactions that require stockholder approval. In addition, certain provisions of Delaware law could have the effect of making it more difficult or more expensive for a third party to acquire, or of discouraging a third party from attempting to acquire control of us.

EXERCISE OF OPTIONS WILL DILUTE EXISTING STOCKHOLDERS AND COULD DECREASE THE MARKET PRICE OF OUR COMMON STOCK.

As of February 18, 2005, we had issued and outstanding 12,699,005 shares of common stock, options and warrants to purchase an additional 1,420,000 and 100,000 shares of common stock, respectively. The existence of the remaining options and warrants may adversely affect the market price of our common stock and the terms under which we obtain additional equity capital.

THE COMPANY MAY GO PRIVATE, WHICH MAY RESULT IN STOCKHOLDERS OWNING SHARES IN A PRIVATE COMPANY WITHOUT THE ABILITY TO SELL THEIR SHARES IN THE PUBLIC MARKET.

Although there are no definite proposals to do so, management and the Board are analyzing the benefits of a possible "going private" transaction for the Company, and the Board has formed a special committee to evaluate potential transactions. One result of such a transaction would be to remove the Company's stock from trading on the OTC Bulletin Board, and the stock would not be eligible for trading on any stock exchange. The Company has less than 300 holders of record of its common stock, and is eligible to terminate its SEC reporting requirements without stockholder approval or additional financing. Should the Company go private, some stockholders may have shares in the Company for which there would be no public market and their ability to sell the shares would be impeded. Furthermore, the Company would not file current, quarterly or annual reports or be subject to the proxy requirements of the federal securities laws. Stockholders may therefore find it more difficult to obtain information about the Company and its financial performance. In addition, should the Company go private, this may adversely affect the Company's access to capital and its ability to complete any proposed merger transaction.

WE MAY FACE POTENTIAL REGULATORY ACTION OR LIABILITY IN CONNECTION WITH OUR 2001 PRIVATE PLACEMENT.

Our issuance of common stock and warrants in a private placement which was completed in 2001 could subject us to potential adverse consequences, including securities law liability and the voiding of contracts entered into in connection with the private placement. If our activities or the activities of other parties in the 2001 private placement are deemed to be inconsistent with securities laws under Section 29 of the Securities Exchange Act of 1934 or our activities or the activities or the activities of other parties are deemed to be inconsistent with the broker dealer registration provisions of Section 15(a) of the Exchange Act:

- we may be able to void our obligation to pay transaction-related fees in connection with the private placement and we may receive reimbursement for fees already paid;

- persons with whom we have entered into securities transactions that are subject to these transaction-related fees may have the right to void these transactions; and

- we may be subject to regulatory action.

Due to the inherent uncertainties involved with the interpretation of securities laws, we are unable to predict the following: the validity of any potential liability in connection with our private placement, the outcome of any regulatory action or potential liability or the outcome of voiding transactions in connection with the private placement. The defense of any regulatory action or litigation and any adverse outcome could be costly and could have a material adverse effect on our financial position and results of operations and could divert management attention.

OUR COMMON STOCK IS LISTED ON THE OVER-THE-COUNTER (OTC) BULLETIN BOARD, WHICH MAY MAKE IT MORE DIFFICULT FOR STOCKHOLDERS TO SELL THEIR SHARES AND MAY CAUSE THE MARKET PRICE OF OUR COMMON STOCK TO DECREASE.

Because our common stock is listed on the OTC Bulletin Board, the liquidity of our common stock is impaired, not only in the number of shares that are bought and sold, but also through delays in the timing of transactions, and limited coverage by security analysts and the news media, if any, of us. As a result, prices for shares of our common stock may be lower than might otherwise prevail if our common stock was traded on NASDAQ or a national securities exchange, like the American Stock Exchange.

OUR STOCK PRICE MAY BE VOLATILE AND AN INVESTMENT IN OUR COMMON STOCK COULD SUFFER A DECLINE IN VALUE.

The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

- progress of our products through development and marketing;
- announcements of technological innovations or new products by us or our competitors;
- government regulatory action affecting our products or competitors' products in both the United States and foreign countries;
- developments or disputes concerning patent or proprietary rights;
- actual or anticipated fluctuations in our operating results;
- the loss of key management or technical personnel;
- the loss of major customers or suppliers;
- the outcome of any future litigation;
- changes in our financial estimates by securities analysts;
- fluctuations in currency exchange rates;

- general market conditions for emerging growth and technology companies;
- broad market fluctuations;
- recovery from natural disasters; and
- economic conditions in the United States or abroad.

OUR CHARTER DOCUMENTS AND DELAWARE LAW MAY HAVE THE EFFECT OF MAKING IT MORE EXPENSIVE OR MORE DIFFICULT FOR A THIRD PARTY TO ACQUIRE, OR TO ACQUIRE CONTROL OF, US.

Our certificate of incorporation makes it possible for our board of directors to issue preferred stock with voting or other rights that could impede the success of any attempt to change control of us. Our certificate of incorporation and bylaws eliminate cumulative voting, which may make it more difficult for a minority stockholder to gain a seat on our board of directors and to influence board of directors' decision regarding a takeover. Delaware Law prohibits a publicly held Delaware corporation from engaging in certain business combinations with certain persons, who acquire our securities with the intent of engaging in a business combination, unless the proposed transaction is approved in a prescribed manner. This provision has the effect of discouraging transactions not approved by our board of directors as required by the statute which may discourage third parties from attempting to acquire us or to acquire control of us even if the attempt would result in a premium over market price for the shares of common stock held by our stockholders.

The information referred to above should be considered by investors when reviewing any forward-looking statements contained in this report, in any of our public filings or press releases or in any oral statements made by us or any of our officers or other persons acting on our behalf. The important factors that could affect forward-looking statements are subject to change, and we disclaim any obligation or duty to update or modify these forward-looking statements.

FORWARD-LOOKING STATEMENTS

Statements contained in this report which are not statements of historical fact are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may be identified by the use of forward-looking terms such as "believes," "expects," "may", "will," "should" or "anticipates" or by discussions of strategy that involve risks and uncertainties. From time to time, we have made or may make forward-looking statements, orally or in writing. These forward-looking statements include statements regarding our ability to borrow funds from financial institutions or affiliates, to engage in sales of our securities, our intention to repay certain borrowings from future sales of our securities or cash flow, the ability to expand capacity by placing in service additional manufacturing equipment and making use of that capacity, our expected acquisition of business or technologies, whether or not we will remain public or go private, our plans for broadening our sales channels and the outlets for our products, our expectation that shipments to international customers will continue to account for a material portion of net sales, anticipated future revenues, our introduction of new products and our increasing our sales from all in one cartridges, digital copier, color and magnetic character recognition toner products, sales, our expectations for operations, demand, technology, products, business ventures, major customers, major suppliers, retention of key officers, management or employees, competition, capital expenditures, credit arrangements and other statements regarding matters that are not historical facts, involve predictions which are based upon a number of future conditions that ultimately may prove to be inaccurate. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects upon our business. We cannot predict whether future developments affecting us will be those anticipated by management, and there are a number of factors that could adversely affect our future operating results or cause our actual results to differ materially from the estimates or expectations reflected in such forward-looking statements. These factors include the "Risk Factors" discussed above.

ITEM 2. PROPERTIES

We currently lease a facility of approximately 180,000 square feet in Norcross, Georgia from an affiliated party. This facility serves as our executive headquarters and houses our toner manufacturing facilities, as well as our research and development and sales and marketing departments. On February 5, 2003, we amended the lease to extend the term from March 31, 2009 to March 31, 2013 for this facility and it includes three options at our election to extend the term for five years each. The rental payments for 2004, 2003 and 2002 were $544,728, $531,444 and $518,484, respectively, subject to annual increases of 2.5% until the end of the term. On September 30, 2002, we divested Logical Imaging Solutions and no longer have the facility in Santa Ana, California. Management considers its facility to be sufficient for its operations for the foreseeable future. On August 15, 2003, we entered into a one-year lease for a 2,450 square foot facility in Buena Park, CA to serve as a west coast sales office and local warehouse, and effective August 31, 2004 this facility is leased on a month-to-month basis.

ITEM 3. LEGAL PROCEEDINGS

Color Imaging is not a party to nor is any of its property subject to any material pending legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Our common stock is traded on the Over the Counter Bulletin Board (the OTC Bulletin Board) under the symbol CIMG. Prior to July 7, 2000, our common stock was traded on the OTC Bulletin Board under the symbol ADTX. The following table sets forth the high and low prices of our common stock for the quarters indicated as quoted on the OTC Bulletin Board.

	2004	2003

	HIGH	LOW	HIGH	LOW
First Quarter.......	$ 0.8000	$ 0.6900	$ 1.5800	$ 0.4500
Second Quarter......	0.8000	0.4200	0.8200	0.4000
Third Quarter.......	0.5200	0.4100	0.7000	0.5100
Fourth Quarter......	0.5800	0.4100	0.7800	0.5400

The above quotations represent prices, adjusted for stock splits, between dealers without adjustments for retail markups, markdowns or commissions and may not represent actual transactions.

HOLDERS

As of February 9, 2005, there were 252 holders of record of our common stock.

DIVIDENDS

We do not anticipate paying cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings to finance our operations and fund the growth of our business. Any payment of future dividends will be at the discretion of our board of directors and will depend upon, among other things, our earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to the payment of dividends and other factors that our board of directors deems relevant.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS.

As of the year ended December 31, 2004, the following securities were authorized for issuance under our equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Numb rema for unde comp (exc refl
Equity compensation plans approved by security holders	1,420,000	$ 1.58	
Equity compensation plans not approved by security holders	None	N/A	
Total	1,420,000	$ 1.58	

After the merger, on June 28, 2000, we granted options to acquire 500,000 shares of our common stock to senior members of our management at an exercise price of $2.00 per share. The options vest over a two to four year period and expire 5 years from their respective date of vesting.

During the year ended December 31, 2001, the board of directors granted officers and employees options to acquire 535,000 shares of our common stock and outside directors options to acquire 175,000 shares of our common stock at an exercise price of $2.75 per share. Of the 535,000 options granted to officers and employees, 25% vested immediately and the remainder will vest over 3 years. The officer and employee options expire 5 years from their respective date of vesting. Each outside director was granted options to acquire 25,000 shares of our common stock, for a total of 175,000 options, effective upon his or her election or appointment to the board of directors. The outside director options vest over 5 years, beginning with the first anniversary date of his or her appointment to the board, and expire 3 years from their respective date of vesting.

The board of directors granted options to acquire 100,000 shares of our common stock to an officer at an exercise price of $2.00 per share during the year ended December 31, 2002. 25% vested immediately and the remainder will vest over 3 years. The options expire 5 years from their respective date of vesting.

The board of directors granted options to acquire 100,000 shares of our common stock to an officer at an exercise price of $0.77 per share during the year ended December 31, 2003. 25% vested immediately and the remainder will vest over 3 years. The options expire 5 years from their respective date of vesting. The board of directors also granted to two new directors during the year ended December 31, 2003, options to purchase 25,000 shares each at an exercise price of $0.45 for a total of 50,000 options, effective upon his or her election or appointment to the board of directors. The director options vest over 5 years, beginning with the first anniversary date of his or her appointment to the board, and expire 3 years from their respective date of vesting.

On April 1, 2004 the Company granted options to an officer to purchase 100,000 shares of the Company's common stock at an exercise price of $.73 per share. Options to purchase 20,000 shares of the Company's common stock vested immediately and the remainder vest at the rate of 20,000 per year beginning on the first anniversary date of the grant and continuing annually thereafter and expire five years from their respective date of vesting. On May 18, 2004, the Company granted 335,000 options to officers, 50,000 options to non-employee directors and 80,000 options to employees at an exercise price of $0.54. One-half of the options granted vested immediately and the remainder vest equally upon the next two anniversary dates of the grant and expire five years from their respective date of vesting.

As a result of employment terminations, resignations or retirements, as of December 31, 2004, options to purchase 405,000 shares of common stock by management or our employees have lapsed, and options to purchase 100,000 shares of our common stock granted to directors have lapsed.

CHANGES IN SECURITIES

On January 23, 2003, the Company's registration statement on Form SB-2, registering up to 7 million shares of the Company's common stock, was declared effective (Registration Statement No. 333-76090), and the Company's officers and directors commenced the offering. On March 13, 2003, the Company completed the public sale of 4,500,000 shares of the Company's common stock at a price of $1.35 per share, whereby the Company received $6,075,000 in gross proceeds from an affiliate, and the Company terminated the offering before the sale of all 7 million of registered shares. The net proceeds received by the Company, after expenses of $174,416, was $5,900,584. None of the aforementioned expenses were direct or indirect payments to directors, officers, their associates or persons owning ten (10) percent or more of the common stock of the Company.

On April 18, 2003, the Company established a stock repurchase program under which the Company may purchase on the open market the lesser of the aggregate value of $1,000,000 or 1,000,000 shares in compliance with Rule 10b-18, and we have reallocated proceeds for this program. Though management is authorized to repurchase the Company's common stock in the aggregate amount of $1,000,000, due to the limitations imposed by Rule 10b-18 and the limited number of shares repurchased to date in accordance therewith, the use of proceeds per Form SB-2 as reflected herein is based upon no more than $500,000 being expended for this purpose.

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Our intended uses, as reallocated, of the $6,075,000 of proceeds received from the public sale of our common stock, and our uses through December 31, 2004, are listed below in descending order of priority:

Purpose:	Amount	Used	Reallocated
Accounts payable and other corporate and offering expenses	$ 1,000,000	$ (115,042)	$ (884,958)
To retire debt (1)	$ 350,000	$ (324,301)	$ (25,699)
To retire debt (2)	$ 1,050,000	$ (956,883)	$ (93,117)
To retire debt (3)	$ 0	$ (235,000)	$ 235,000
To reduce IDR Bond debt (4).	$ 0	$ (548,928)	$ 846,264
To acquire capital assets.	$ 1,500,000	$ (318,774)	$ 0
To repurchase our stock (5).	$ 0	$ (56,133)	$ 500,000
For other general corporate purposes including working capital	$ 2,175,000	$(536,072)	$ (577,490)
Total:	$ 6,075,000	$(3,091,133)	
Pending application:			
Short-term investments			
Pay down of revolving line of credit			

(1) On November 30, 2000, we entered into a loan for $500,000 with a 5-year term, secured by specific manufacturing equipment, maturing November 30, 2004, with General Electric Capital Corporation for the purchase of toner manufacturing equipment. The interest rate is 10.214% and the monthly principal and interest payments were $10,676.39.

(2) On June 24, 1999, we entered into a loan for $1,752,000 with a 7-year term, secured by our business assets, maturing June 24, 2006, with SouthTrust Bank for the refinancing of obligations owing the bank for the acquisition of equipment and that due under a previous working capital line of credit. The interest rate is 7.90% per annum and the monthly principal and interest

payments were $27,205.00.

(3) On July 24, 1999, as amended, we entered into a borrowing arrangement under a revolving line of credit in the maximum amount of $2.5 million. During March 2003 we temporarily used $1,735,000 of our proceeds from our public offering on Form SB-2 to pay down the line of credit to $0, which at that time had an interest rate of 3.8375%. On June 16, 2003, we renewed and restructured the line of credit with the bank, reducing the maximum availability to $1.5 million and permanently retiring $235,000.

(4) On June 1, 1999, the Development Authority of Gwinnett County (the Authority), issued $4,100,000 of industrial development revenue bonds on behalf of the Company and Kings Brothers, LLC. The 1.09% revenue bonds, 2.09% inclusive of the 1% letter of credit fee, as of June 30, 2004, are payable in varying annual principal and monthly interest payments through July 2019. The bond is secured, as amended on April 7, 2003, by specific equipment assets of the Company and by real property owned by Kings Brothers, LLC. A loan agreement between the Authority and the Company and Kings Brothers, LLC allows funds to effectively pass through the Authority to the Company. The majority of the proceeds, $3,125,872, were used by the Company to relocate, purchase and install certain manufacturing equipment, while $974,128 was used by Kings Brothers, LLC to pay down the mortgage on the real property leased to the Company. The Company and the Related Party are jointly obligated to repay any outstanding debt. As of December 31, 2004, the bond principal outstanding was $2,725,000 and the portion due from Kings Brothers, LLC was $647,428. The $846,264 of principal to be repaid under the IDR bond, as reallocated hereinabove, is the Company's share of the bond principal due and payable on the 1st of July 2003, 2004 and 2005, respectively.

(5) From July 2003 through December 31, 2004, under the repurchase program the Company has repurchased 84,700 shares of our common stock on the open market for $56,133, or at an average price of $0.66. All of the shares repurchased under the program have been cancelled and retired as of December 31, 2004. There remains $943,867 available for future common stock repurchases under the authorization of the board of directors and $443,867 as allocated by management hereinabove.

During March 2003, using proceeds from the offering on Form SB-2, the Company retired debt owed to General Electric Capital Corporation and SouthTrust Bank, and to the extent proceeds were not required in the amounts outlined for those purposes, they have been reallocated to be used for general corporate purposes.

During March 2003, pending application of the proceeds from the offering on Form SB-2, the Company paid down its line of credit with the bank by the then outstanding principal balance of $1,735,000. On June 16, 2003, with the renewal of our line of credit with SouthTrust Bank, we permanently reduced our revolving line of credit to $1,500,000; and, as a result, we retired $235,000 of that debt with our bank.

The Company's share of the principal payment due under the IDR Bond on July 1, 2003, in the amount of $266,840 has been paid, and as of December 31, 2004, $282,088 was paid on the IDR bond debt due July 1, 2004. The above table reflects the July 1, 2003 and 2004 payments on the IDR bond. The Company's share of the principal payment due under the IDR bond on July 1, 2005, is $297,336.

Pending application, we have retained the balance of the net proceeds in a deposit account with the bank and an investment account with a securities firm related to the bank.

No direct or indirect payments to directors, officers, their associates or persons owning ten (10) percent or more of the Company's common stock were made with proceeds from the Company's offering on Form SB-2

ISSUER PRIVATE PURCHASES OF EQUITY SECURITIES

With the approval of the board of directors of the Company, on March 4, 2003, the Company completed the repurchase from a stockholder of 12,939 shares of the Company's common stock together with warrants to purchase 25,878 shares of the Company's common stock at an exercise price of $2.00 per share for $25,878. The shares and warrants were originally sold in the Company's private placement that was completed in December 2001. The shares and warrants repurchased by the Company were retired and cancelled as of December 31, 2003.

With the approval of the board of directors of the Company, on February 27, 2003, the Company entered into an agreement with a stockholder to repurchase 150,000 shares of common stock and warrants to purchase 300,000 shares of the Company's common stock at an exercise price of $2.00 per share. Under the agreement, the stockholder has a one-time right to cancel the sale of the common stock and warrants not yet paid for by the Company upon written notice to the Company. Upon receipt of such notice, the Company is not obligated to purchase the remaining common stock and warrants. The agreement provides that the Company is to pay $2.00 for each common share and warrant to purchase two common shares of the Company's common stock. The shares and warrants are to be repurchased in approximately equal installments over nine months, beginning in March and ending in November 2003. From March 24, 2003 through December 31, 2003, the Company repurchased 150,000 of the Company's common shares and warrants to purchased 300,000 common shares, paying $300,000. The shares and warrants repurchased by the Company were cancelled and retired as of December 31, 2003.

ISSUER MARKET PURCHASES OF EQUITY SECURITIES

On April 18, 2003, the Company established a stock repurchase program under which the Company may purchase on the open market the lesser of the aggregate value of $1,000,000 or 1,000,000 shares in compliance with Rule 10b-18 until September 30, 2005, as extended by the board of directors during the annual meeting held on May 18, 2004, and we have reallocated proceeds for this program. From July 2003 through December 31, 2003, under the repurchase program the Company repurchased 44,500 shares of our common stock on the open market at an average price of $0.65. From January 1 through December 31, 2004, under the repurchase program the Company has repurchased 40,200 shares of our common stock on the open market at an average price of $0.68. Since the inception of the repurchase program the Company has repurchased 84,700 shares of our common stock for $56,133 and at an average price of $0.66. There remains $943,867 available for future common stock repurchases, as authorized by the board of directors.

ISSUER (MARKET) PURCHASE OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share ($)	Total Number of Shares Purchased as Part of Publicly Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Be Purchased Under the Plans or Programs
During 2003 (1)	59,500	0.69	59,500	

During 2004				
January	7,000	0.72	7,000	
February	3,500	0.76	3,500	
March	7,000	0.77	7,000	
April	7,000	0.78	7,000	
May	7,000	0.70	7,000	
June	0	--	0	
July	0	--	0	
August	2,900	0.45	2,900	
September	2,900	0.47	2,900	
October	0	--	0	
November	2,900	0.43	2,900	
December	0	--	0	
Total 2004	40,200	0.68	40,200	1,000,000
Total	99,700	0.66	99,700	1,000,000

(1) Includes 15,000 shares purchased by Jui-Chi Wang, who may be deemed to be an affiliated purchaser under Rule 10b-18. These shares are not included in the Company's stock repurchase program.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following Selected Consolidated Financial Data should be read in conjunction with our Consolidated Financial Statements and Notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 7 and other financial information included elsewhere in this Report or incorporated herein by reference. The selected data presented below are derived from the Color Imaging's Consolidated Financial Statements. Prior to the merger on June 28, 2000, Color Imaging was a non-operating public shell. On September 30, 2002, Color Imaging divested itself of Logical Imaging Solutions, Inc. in a share exchange agreement with Digital Color Print, Inc. The historical results are not necessarily indicative of future results of operations.

	Fiscal Year			
(Dollars in thousands, except per share data)	2004	2003	2002	2001
Income Statement Data:				
Total revenue	$ 21,835	$ 21,058	$ 28,000	$ 29,970
Operating income (loss)	636	667	988	732
Net income (loss) from continuing operations	464	433	430	254
Net loss from discontinued operations	--	--	(261)	(204)
Net income (loss)	464	433	169	50
Diluted net income (loss) per share from continuing operations	.04	.04	.04	.03
Balance Sheet Data:				

Cash and short-term investments	$ 2,045	$ 2,214	$ 129	$ 394
Net assets of discontinued operations	0	0	0	2,264
Total assets	16,696	17,895	16,114	19,817
Working capital	7,415	6,456	1,797	4,352
Long-term obligations	2,943	3,149	4,683	4,798
Retained earnings (accumulated deficit)	(1,152)	(1,616)	(2,049)	(2,218)
Total stockholders' equity	11,656	11,220	5,241	7,608

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

GENERAL

On June 28, 2000, Color Imaging, formerly known as Advatex Associates, Inc. merged with Logical Imaging Solutions, Inc. and Color Image, Inc. and Logical Imaging Solutions and Color Image became wholly-owned subsidiaries of Advatex. The financial information contained in this report is in conformity with the purchase method of accounting. The assets, liabilities and operating results of Color Image are only included in the consolidated financial statements of Color Imaging from the date of acquisition, June 28, 2000, or for only the last six months of the year ended December 31, 2000 and for the full years ended December 31 thereafter, and discontinued operations are those of Logical Imaging Solutions for all periods. On December 31, 2000, Color Image was merged with and into Color Imaging. On September 30, 2002, we divested Logical Imaging Solutions in exchange for 1.7 million shares of our common stock and warrants to purchase up to 15% of the common stock of Digital Color Print or Logical Imaging Solutions. As the result of our disposing of Logical Imaging Solutions, Inc. we no longer offer printing systems to commercial printers nor the support services and consumables related thereto. As a further result of Color Imaging's divestiture of Logical Imaging Solutions, our investments in the furthering of Logical Imaging Solutions' technologies and carrying its operations have ceased. Significantly, since the merger on June 28, 2000, Color Imaging invested approximately $2.35 million in the operations of Logical Imaging Solutions and the development of its technologies with $675,000 of that amount having been invested during the nine-month period ended September 30, 2002.

The following discussion and analysis should be read in conjunction with our financial data and our Financial Statements and notes appearing elsewhere in this report.

Net sales for the year ended December 31, 2004 was approximately $22 million compared to $21 million in 2003. The increase in our copier product sales during 2004 offset the decreases from our two largest customers and the decreases experienced in laser and MICR sales. Net sales for the year ended December 31, 2003 and 2002 were approximately $21 million and $28 million, respectively. Net sales in 2003, as well as 2002, decreased primarily due to substantially reduced sales to our largest customers. In the twelve months ended December 31, 2004, 2003 and 2002, our net sales were primarily generated from the sale of finished consumable products for electronic printers and photocopying machines, which comprised approximately 80%, 72% and 77% of net sales, respectively. Only one customer accounted for more than 10% of our net sales during the year-end December 31, 2004. Net sales from this customer for the year ended December 31, 2004 were 24% of our net sales, while net sales from this same customer for the years ended December 31, 2003 and 2002 were approximately 29% and 44% of our net sales, respectively. Sales to this customer consist primarily of analog copier products, and as a result are expected to decline over time. Notwithstanding the foregoing, our largest customer is testing our Ricoh AP3800 digital color copier product. Net sales to our largest customer were approximately $5.2 million, or 24%, $6.1 million, or 29% and $13.2 million, or 47%, in 2004, 2003 and 2002, respectively. We do not have a written or oral contract with our largest customer, and all sales are made through purchase orders. Though our sales are on purchase orders, the customer typically issues purchase orders three months in advance of the product delivery date and provides us with an additional two-month rolling forecast. Based on this and other information, we anticipate significant additional decreases in sales to our largest customer in 2005. Consistent with the purchase orders and forecasts provided to us by our largest customer, we provide our major suppliers with purchase orders three months in advance and an additional rolling forecast for two months. In April 2001, we changed our purchasing arrangement with our largest supplier to FOB origination from FOB destination, and we adjusted our pricing to reflect the change to costs.

Net sales made outside of the United States increased by approximately 15% to $9.9 million for the twelve months ended December 31, 2004. This increase in net sales made outside of the United States was derived from customers other than our largest customer. Net sales made outside of the United States decreased 17% to approximately $8.6 million, or 41% of total sales for the twelve months ended December 31, 2003, compared to $10.3 million, or 37% for the twelve months ended December 31, 2002. This 17% decrease in international sales resulted primarily from the decrease in sales to our two largest customers.

The following table reflects the consolidated new orders, net of cancellations, revenues and backlog as of the beginning and end of the three years ended December 31, 2004, as well as for Color Imaging's two general product lines.

	Backlog at start of Year	New Orders	Net Revenue	Backlog at end of Year
	(IN THOUSANDS OF DOLLARS)			
2004:				
Copier Products	$ 1,896	$ 15,976	$ 16,469	$ 1,403
Printer Products	575	5,339	5,366	548
Total	$ 2,471	$ 21,315	$ 21,835	$ 1,951
2003:				
Copier Products	$ 2,718	$ 13,338	$ 14,160	$ 1,896
Printer Products	473	6,999	6,897	575
Total	$ 3,191	$ 20,337	$ 21,057	$ 2,471
2002:				
Copier Products	$ 1,921	$ 20,518	$ 19,721	$ 2,718
Printer Products	483	8,269	8,279	473
Total	$ 2,404	$ 28,787	$ 28,000	$ 3,191

CRITICAL ACCOUNTING ESTIMATES

"Management's Discussion and Analysis of Financial Condition and Results of Operations" discusses our financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, valuation allowances for inventory and accounts receivable, warranty and impairment of long-lived assets. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. The result of these estimates and judgments form the basis for making conclusions about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our significant estimates and assumptions are reviewed and any required adjustments are recorded on a quarterly basis.

A critical accounting policy is one that is both important to the portrayal of Color Imaging's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management believes the following critical accounting policies affect its more significant judgments and estimates in the preparation of its consolidated financial statements.

VALUATION ALLOWANCE FOR ACCOUNTS RECEIVABLE. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. These allowances are based on historical experience, credit evaluations and specific customer collection issues we have identified. Since our accounts receivable are often concentrated in a relatively few number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectibility of our accounts receivable and our future operating results. For the years ended December 31, 2004, 2003 and 2002 our write-offs were approximately $19,638, $41,339 and $8,733, or averaged less than $20,000 per year. As of December 31, 2004, we had $2,506,000 of accounts receivable net of a $93,200 valuation allowance.

INVENTORY VALUATION. Our inventories are recorded at the lower of standard cost or the current estimated market value. As with any manufacturer or wholesaler, economic conditions, cyclical customer demand, product introductions or pricing changes of our competitors and changes in purchasing or distribution can affect the carrying value of inventory. Demand for our products has fluctuated significantly and may do so in the future, which could result in an increase in the cost of inventory or an increase in excess inventory quantities on hand. As circumstances warrant, we record lower of cost or market inventory adjustments. In some instances these adjustments can have a material effect on the financial results of an annual or interim period. In order to determine such adjustments, we evaluate the age, inventory turns, estimated fair value and, in the case of toner products, whether or not they can be reformulated and manufactured into other products, and record any adjustment if estimated fair value is below cost. Through periodic review of each of our inventory categories and by offering markdown or closeout pricing, we regularly take steps to sell off slower moving inventory to eliminate or lessen the effect of any lower of cost or market adjustment. If assumptions about future demand or actual market conditions are less favorable than those projected by management, write-downs of inventory could be required, and there can be no assurance that future developments will not necessitate further write-downs. For the years ended December 31, 2004, 2003 and 2002 we made inventory obsolescence reserves of $280,000, $275,000 and $240,000, totaling $795,000, or an average of $265,000 per year, and we have written-down or disposed of approximately $296,000, $212,000 and $279,000 for the same period for a total of $787,000 of inventory, or an average of $262,000 per year. Our experience over the last few years has indicated an obsolescence rate of approximately $20,000 per month. As of December 31, 2004, we had approximately $4,855,000 of inventory net of an $82,000 valuation provision.

VALUATION OF LONG-LIVED ASSETS. We periodically evaluate whether events and circumstances have occurred which may affect the estimated useful life or the recoverability of the remaining balance of our long-lived assets, such as our investment in our toner manufacturing equipment. Our manufacturing equipment is suitable for, and is used to make, a large number of products, and as such we have not experienced any impairment due to the discontinuation of any product(s). During the years 2000 through 2002 we moved and expanded our manufacturing facilities, upgrading the technologies we employ, and during 2003 we continued to upgrade and take out of service equipment that has reached its useful life or was no longer competitive, much of all of which was fully depreciated. We have approximately $8.1 million invested in such equipment and plant improvements, with a carrying value of $6.1 million, that have estimated lives of up to twenty years. Should competing technologies or offshore competitors cause our manufacturing technology to be non-competitive, or should other events or circumstances indicate that the carrying amount of these assets would not be recoverable, the estimated life of these assets may need to be shortened and their carrying value could be materially affected. If the sum of the undiscounted expected cash flows from an asset to be held and used in operations is less than the carrying value of the asset, an impairment loss is recognized.

WARRANTY. We provide a limited warranty, generally ninety (90) days, to all purchasers of our products. Accordingly, we do not make a provision for the estimated cost of providing warranty coverage, and instead we expense these costs as they are incurred. On occasion, we have been required and may be required in the future to provide additional warranty coverage to ensure that our products are ultimately accepted or to maintain customer goodwill. We incurred no material warranty expenses for 2004, 2003 and 2002. While our warranty costs have historically not been significant we cannot guarantee that we will continue to experience a similar level of predictability with regard to warranty costs as we have in the past. In addition, the introduction of more expensive finished products, manufactured by us and by others and distributed by us through more sales channels, technological changes or previously unknown defects in raw materials or components may result in more extensive and frequent warranty claims than anticipated, which could have a material adverse impact on our operating results for the periods in which such additional costs materialize.

RESULTS OF CONTINUING OPERATIONS

Color Imaging's net sales increased approximately 4% to $22 million for the year ended December 31, 2004, compared to approximately $21 million for the year ended December 31, 2003. Net sales by product category were:

(Dollars in thousands)	2004	% Increase (Decrease)	2003	% Increase (Decrease)	2002
Product Category:					
Cartridges and bottles					
Copier finished products	$15,437	29%	$11,925	(28%)	$16,581
Printer finished products	1,925	(42%)	3,309	(6%)	3,533
	17,362	14%	15,234	(24%)	20,114
Bulk toner and parts	4,473	(23%)	5,823	(26%)	7,886
Total net revenue	$21,835	4%	$21,057	(25%)	$28,000

The following table sets forth, for the periods indicated, selected information derived from Color Imaging's consolidated statements of operations and expressed as a percentage of net sales.

	Twelve Months Ended December 31,		
	2004	2003	20
Net Sales	100	100	
Costs of goods sold	75	75	
Gross profit	25	25	
Administrative expense	6	8	
Research and development	5	6	
Sales and marketing	11	8	
Operating Income	3	3	
Interest and financing costs	1	1	
Depreciation and amortization	5	7	
Income before taxes	4	3	
Provision for taxes (credit)	2	1	
Net income (loss) from continuing operations	2	2	

YEARS ENDED DECEMBER 31, 2004 AND 2003

Net Sales. Our net sales increased to $21.8 million, or 4%, for the twelve months ended December 31, 2004, from $21.1 million for the twelve months ended December 31, 2003. Net sales made in the United States were $11.9 million, a decrease of $0.6 million, or 5%, from $12.5 million made in the comparable period in 2003. The decrease in net sales made in the United States resulted primarily from reduced sales to our largest customer and lower demand for bulk laser toners. While sales to our largest customer decreased by 11% from $6.1 million to $5.4 million for the twelve months ended December 31, 2004 compared to 2003, and are expected to continue to decline in 2005, sales to other than our largest customer increased from $1.4 million to $16.4 million, or by 9%. Of the $21.8 million in net sales, $17.4 million, or 80%, were attributable to finished products, compared to $15.2 million or 72% for the comparable period in 2003. The increase in finished product sales of $1.4 million or 9% was the result of increased sales of all-in-one and copier product to customers other than our largest customer. The revenue decrease from bulk toner and parts was $1.3 million or 22% compared to 2003, largely as a result of our discontinuing a number of products and increased competition for certain low margin laser toners. In the twelve months ended December 31, 2004 and 2003 our largest customer, a distributor, accounted for approximately 25% and 29%, respectively, of net sales. During 2005, unless our largest customer approves and purchases substantial quantities of our digital color copier products, we expect that sales to our largest customer will continue to decline but will be offset by the increases in sales to other customers.

Cost of Goods Sold. Cost of goods sold increased by $0.5 million, or 3%, to $16.3 million from $15.8 million for the twelve months ended December 31, 2004 from the comparable period in 2003, primarily as the result of the increase in net sales. Cost of goods sold as a percentage of net sales was 75% for the twelve months ended December 31, 2004 and 2003. The increase in costs of goods sold in connection with the sale of some $2.5 million of low margin all-in-one products was offset by the decrease in the cost of goods sold attributable to the sale of digital color copier products. New digital color products being introduced and sold during the first quarter 2005 are expected to result in our further reducing our cost of sales during 2005.

Gross Profit. As a result of the above factors, gross profit increased to $5.6 million, or 25% of net sales, in the twelve months ended December 31, 2004 from $5.3 million, or 25% of net sales, in the twelve months ended December 31, 2003.

Operating Expenses. Operating expenses increased $0.3 million, or 7%, to $4.9 million in the twelve months ended December 31, 2003 from $4.6 million in the twelve months ended December 31, 2003. General and administrative, selling and R&D expenses increased, as a percentage of net sales, to 23% in the twelve months ended December 31, 2004 from 22% in the twelve months ended December 31, 2003 as the result of the increased marketing and sales expenses. General and administrative expenses decreased approximately 18%, or $0.3 million to $1.4 million for the twelve months ended December 31, 2004 from the comparable period in 2003, largely resulting from a lower bonus amount paid in 2004 compared to 2003, and reductions in legal and professional fees and payroll related expenses. Selling expenses increased by $0.6 million, or 36%, in the twelve months ended December 31, 2004 compared to the twelve months ended December 31, 2003. Selling expenses increased primarily as a result of $0.5 million of increased in payroll related expenses from the opening of the California sales office in late 2003 and the hiring of the senior vice president of marketing and sales effective April 1, 2004. With our net sales being derived increasingly from the sales of our direct sales staff and through our manufacturer's representatives, and with increased sales planned for 2005 together with the hiring of additional sales personnel during the year, we expect our selling expenses to further increase in 2005. Research and development expenses remained approximately the same, some $1.2 million, in the twelve months ended December 31, 2004 and 2003. We expect to increase research and development expenditures modestly in 2005 in an effort to develop and bring to market more new products before our competition, while also reformulating certain product formulas to manufacture a greater percentage of our products on our more efficient production equipment.

Operating Income. As a result of the above factors, operating income decreased by $31,000, or 5%, to $636,000 in the twelve months ended December 31, 2004 from $667,000 in the twelve months ended December 31, 2003.

Interest and Finance Expense. Interest expense decreased by $74,000, or 44%, in the twelve months ended December 31, 2004 from the twelve months ended December 31, 2003. The decrease was primarily the result of reduced interest bearing debt levels. We reduced significantly our debt outstanding with proceeds from our public offering of common stock in 2003.

Other Income. Other income increased by $11,000, from income of $219,000 to income of $230,000 in the twelve months ended December 31, 2004 from the twelve months ended December 31, 2003, primarily as the result of $155,000 of Euro currency gains.

Income Taxes. As the result of our profit from continuing operations in the twelve months ended December 31, 2004, we recorded an income tax provision of $311,000 for the period, while the income tax provision was $288,700 for the twelve months ended December 31, 2003.

YEARS ENDED DECEMBER 31, 2003 AND 2002

Net Sales. Our net sales decreased by $6.9 million, or 25%, to $21.1 million for the twelve months ended December 31, 2003, from $28 million for the twelve months ended December 31, 2002. Net sales made in the United States were $12.5 million, a decrease of $5.2 million, or 29%, from $17.7 million made in the comparable period in 2002. The decrease in net sales made in the United States resulted primarily from reduced sales to our two largest customers and lower demand for our bulk toners. While sales to our two largest customers decreased by 51% from $18.8 million to $9.1 million for the twelve months ended December 31, 2003 compared to 2002, and are expected to continue to decline in 2004, sales to other than our two largest customers increased from $9.2 million to $11.9 million, or by 29%. Of the $21 million in net sales, $15.2 million, or 72%, were attributable to cartridges and bottled toner products, compared to $20.1 million or 77% for the comparable period in 2002. The decrease in cartridge and bottled toner sales of $4.9 million or 24% was primarily the result of decreased sales to our two largest customers. The revenue decrease from bulk toner and parts was $2 million or 28% compared to 2002, largely as a result of our discontinuing a number of products and increased competition for certain low margin laser toners. In the twelve months ended December 31, 2003, our two largest customers, a distributor and an OEM, accounted for approximately 29% and 14%, respectively, of net sales. In the twelve months ended December 31, 2002, these two customers accounted for approximately 47% and 20%, respectively, of net sales. During 2004 we expect that sales to our other customers will more than offset the further declines in sales to these two customers.

Cost of Goods Sold. Cost of goods sold decreased by $7.6 million, or 33%, to $15.8 million from $23.4 million for the twelve months ended December 31, 2003 from the comparable period in 2002, primarily as the result of the decrease in net sales but also as a result of lower manufacturing costs. Cost of goods sold as a percentage of net sales decreased by 9 percentage points from 84% for the twelve months ended December 31, 2002 to 75% for the twelve months ended December 31, 2003. The decrease in the cost of goods sold as a percentage of net sales was primarily the result of reduced sales derived from certain very low margin products previously sold to our largest customer that have been discontinued, the effects of previous price increases on a few analog copier products and higher levels of sales derived from higher margin color copier products. Having recently placed more efficient manufacturing equipment in service, we expect our cost of goods sold on products we manufacture to further decrease as a percentage of net sales, but there can be no assurance in this regard. Further, higher cost of goods sold on products purchased for resale could offset the percentage decrease expected from more efficient manufacturing operations.

Gross Profit. As a result of the above factors, gross profit increased to $5.3 million, or 25% of net sales, in the twelve months ended December 31, 2003 from $4.6 million, or 16% of net sales, in the twelve months ended December 31, 2002, or $0.7 million, while net sales for the same period decreased by approximately $6.9 million, or 25%.

Operating Expenses. Operating expenses increased $1 million, or 28%, to $4.6 million in the twelve months ended December 31, 2003 from $3.6 million in the twelve months ended December 31, 2002. General and administrative, selling and R&D expenses increased, as a percentage of net sales, to 22% in the twelve months ended December 31, 2003 from 13% in the twelve months ended December 31, 2002 as the result of the decrease in net sales for the year and the increases in general and administrative, research and development and sales and marketing expenses. General and administrative expenses increased approximately 28%, or $367,000 to $1,680,000 for the twelve months ended December 31, 2003 from the comparable period in 2002, largely resulting from a $140,000 bonus granted the President by the board, $83,000 for increased payroll, including information technology payrolls, $37,000 in connection with our recently opened West Coast office, and professional fees in connection with the repurchase of our securities from two investors in our 2001 private placement. Selling expenses increased by $414,000, or 30%, in the twelve months ended December 31, 2003 compared to the twelve months ended December 31, 2002. Selling expenses increased primarily as a result of $251,000 of increased commissions and expenses of manufacturer's representatives, $117,000 of expenses in connection with our West Coast office, $75,000 of advertising and sample expenses, a $40,000 provision for bad debts and $13,000 for foreign credit insurance. Research and development expenses increased by $229,000, or 24%, to $1,176,000 in the twelve months ended December 31, 2003, primarily as the result of $97,000 of increased testing expenses in connection with new products under development, $74,000 of increased payroll and consulting expenses and $22,000 of recruiting expenses.

Operating Income. As a result of the above factors, operating income decreased by $321,000, or 33%, to $667,000 in the twelve months ended December 31, 2003 from $988,000 in the twelve months ended December 31, 2002.

Interest and Finance Expense. Interest expense decreased by $166,000, or 50%, in the twelve months ended December 31, 2003 from the twelve months ended December 31, 2002. The decrease was primarily the result of reduced interest bearing debt levels.

Other Income. Other income increased by $172,000, from income of $47,000 to income of $219,000 in the twelve months ended December 31, 2003 from the twelve months ended December 31, 2002, primarily as the result of $149,000 of Euro currency gains.

Income Taxes. As the result of our profit from continuing operations in the twelve months ended December 31, 2003, we recorded an income tax provision of $288,700 for the period, while the income tax provision was $274,000 for the twelve months ended December 31, 2002.

RESULTS OF DISCONTINUED OPERATIONS

On September 30, 2002, we completed a share exchange agreement with Digital Color Print, Inc., whereby we received 1.7 million shares of our common stock in exchange for all of the shares of the common stock of our subsidiary, Logical Imaging Solutions, Inc. The financial statements included herein, reflect the divestiture of Logical Imaging Solutions, Inc. as discontinued operations.

The following table sets forth, for the periods indicated, selected information relating to the discontinued operations of Logical Imaging Solutions that has been derived from our consolidated statements of operations.

	Twelve Months Ended December 31,	Nine Months Ended September 30,	Twelve Months Ended December 31,
	2004	2003	2002
Net revenue	$ --	$ --	$ 464,628
Operating (loss)	--	--	(406,570)
Net (loss)	$ --	--	$ (261,326)

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

As of December 31, 2004, Color Imaging had cash on hand of $2,045,000 and $1,500,000 of availability under our revolving credit line with our bank. Our working capital and current ratio was approximately $7.4 million and $6.5 million and 4.54 to 1 and 2.83 to 1, respectively, at December 31, 2004 and 2003.

Color Imaging generated $852,000 of cash flows from operating activities in the twelve months ended December 31, 2004, compared to $258,000 of cash flows from operating activities in the twelve months ended December 31, 2003. The increase in operating cash flows from continuing operations in the twelve months ended December 31, 2004 was primarily due to a $770,000 decrease in inventories resulting from our inventory improvement project launched during 2004. The increase in cash flows from continuing operations in the twelve months ended December 31, 2003 was also due to the reduction in accounts receivable, prepaid expenses and other assets. There was no operating cash flows used by discontinued operations were for the years ended December 31, 2004 and 2003.

Cash flows used in investing activities were $222,000 in the twelve months ended December 31, 2004, compared to $473,000 in the twelve months ended December 31, 2003. The decrease in cash used in investing activities in the twelve months ended December 31, 2003, was entirely attributable to decreased capital expenditures in our factory. During 2005 we plan as much as $1 million of additional capital expenditures, and we expect to fund these expenditures from our cash on hand or cash flow from operations.

Cash flows used in financing activities, primarily to repay bond and related party debt, for the twelve months ended December 31, 2004 was $799,000 compared to $2,300,000 of cash flows provided by financing activities for the twelve months ended December 31, 2003. The cash flow used in financing activities in 2004 consisted primarily of debt repayments. The $2,300,000, derived primarily from $5,900,000 of net proceeds from the sale of our common stock, was partially offset by debt repayments of $3,225,000.

We have a $1.5 million revolving line of credit with our bank, with a $500,000 sub-limit for letters of credit that had an outstanding balance as of December 31, 2004 of $0, and we had $1.5 million in borrowing availability. The interest rate is the one-month Libor interest rate in effect two business days before the first day of the month plus 2.50%. As of December 31, 2004, the interest rate was the one-month Libor rate of 2.28% plus 2.50% (4.78%). This revolving line of credit has a June 30, 2005 expiration date. Under the line of credit, we are permitted to borrow up to 75% of eligible accounts receivable and 50 percent of eligible inventories (up to a maximum of $750,000 of such inventories and not to exceed 50 percent of the total outstanding). Based on the foregoing formula, we had $1,500,000 of the additional monies available to us to borrow from the bank as of December 31, 2004. On February 6, 2004, the Bank issued an irrevocable standby letter of credit in the amount of $1.5 million for the benefit of a non-affiliated foreign supplier. On January 5, 2005, the irrevocable standby letter of credit was amended and reduced by $500,000 to $1 million. The letter of credit has an expiration date of June 30, 2005. We have granted our bank a security interest in all of our assets as security for the repayment of the line of credit and our obligations under the letter of credit. The bank agreement contains various covenants that Color Imaging is required to maintain, and throughout 2004 and as of December 31, 2004, we were in compliance with these covenants. Further, we expect to remain in compliance with the bank's covenant requirements throughout 2005.

Our liquidity is affected by many factors, some based on the normal operations of our business and others related to the uncertainties of the industry and global economies. Although our cash requirements will fluctuate based on the timing of these factors, we believe that current cash and cash equivalents, cash flows from operations and amounts available under our credit agreement are sufficient to fund our planned capital expenditures of approximately $1 million, working capital, financing needs and other operating cash requirements throughout 2005.

COMMITMENTS

Our minimum payment obligations relating to long-term debt and other contractual obligations are as follows:

CONTRACTUAL OBLIGATIONS (IN THOUSANDS)	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS
IDR bonds	$390	$1,080	$175	$1,0
Long-term debt	6	5		
Related party debt	68			
Operating leases, automobiles	29	16		
Unconditional purchase obligations(1)	2,404			
Facility lease, related party	558	1,760	1,248	1,4
Facility lease, other	2			
Severance obligations under Employment agreements (2)	341	45		
Total	$3,798	$2,906	$1,423	$2,5

(1) Unconditional commitments, open purchase orders, to purchase raw materials, plastic cartridges and bottles, parts and other products for use in manufacturing and finished products for resale in the ordinary course of

business with future delivery dates. Due to minimum order quantities and long lead times for many of these products, we have made purchase commitments that may be in excess of future production requirements, and it could take several months to use all of these product commitments in the manufacture of our products. These purchase commitments are not expected to result in any significant losses, though those in connection with older analog copier products have a higher risk of obsolescence than those used in the manufacture of our other products.

(2) Employment agreements between Color Imaging and three executive officers that provide for severance payments of the lesser of three (3) to twelve (12) months of salary and benefits or the remainder of the term of the agreement, expiring from June 30, 2005 to March 31, 2006.

OTHER COMMERCIAL COMMITMENTS (IN THOUSANDS)	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	AFTE 5 YEA
Lines of credit (1)	$ 0	$ 0	$ 0	$
Standby letters of credit (2)	0	0	0	
Total	$ 0	$ 0	$ 0	$

(1) Color Imaging has a $1.5 million revolving line of credit with its bank that expires June 30, 2005. As of December 31, 2004, there was no outstanding principal balance. A renewal of the line of credit to June 30, 2006, has been requested.

(2) On January 28, 2004, Color Imaging applied for a $1.5 million irrevocable standby letter of credit with an expiration date of June 30, 2005, to secure its payments to a vendor for the importation of toner related products. On January 5, 2005, the letter of credit was amended and reduced by $500,000 to $1 million.

OFF BALANCE SHEET ARRANGEMENTS

As a condition of the Share Exchange Agreement, as amended, of September 2002, between Logical Imaging Solutions, Inc., Digital Color Print, Inc. and Color Imaging, Logical Imaging Solutions and Digital Color Print assumed the responsibility for an operating lease for equipment used by Logical Imaging Solutions upon which Color Imaging is a co-obligor. The aggregate payment obligations remaining as of September 2002 were less than $50,000, and as a condition of the Share Exchange Agreement Logical Imaging Solutions and Digital Color Print pledged 50,000 shares of the common stock of Color Imaging to secure their performance of all of the terms and conditions of the lease.

On June 1, 2003, Color Imaging entered into a Marketing and Licensing Agreement (refer to Exhibit 10.14 filed with Form 10-Q for the quarter ended September 30, 2003), as amended and restated on November 15, 2004, effective as of April 1, 2004, with its affiliate General Plastic Industrial Co Ltd. Per the Marketing and Licensing Agreement General Plastic Industrial Co Ltd agrees to indemnify and hold harmless Color Imaging for any costs and expense arising from any defective licensed product, and/or any recalled licensed product including litigation arising therefrom. Further General Plastic Industrial Co Ltd agrees to credit Color Imaging for product cost, shipping and related expenses arising from any defective licensed product, and/or any recalled licensed product.

On February 6, 2004, our Bank issued on our behalf an irrevocable standby letter of credit in the amount of $1.5 million for the benefit of a non-affiliated foreign supplier. On January 5, 2005, the irrevocable standby letter of credit was amended and reduced by $500,000 to $1 million. The letter of credit has an expiration date of June 30, 2005, and guarantees the payment of moneys owed the supplier for materials purchased from them by the Company on terms from net 30 to net 120. At December 31, 2004, the Company's accounts payable to this supplier was $94,625, while our open purchase order commitments were $756,468. The Company has granted the Bank a security interest in all of the Company's assets as security for the repayment of the line of credit and the obligations under the letter of credit.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), "Shared-Based Payment." Statement 123(R) addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Statement 123(R) requires an entity to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the income statement. The revised Statement generally requires that an entity account for those transactions using the fair-value-based method, and eliminates the intrinsic value method of accounting in APB Opinion No. 25, "Accounting for Stock Issued to Employees", which was permitted under Statement 123, as originally issued.

The revised Statement requires entities to disclose information about the nature of the share-based payment transactions and the effects of those transactions on the financial statements.

Statement 123(R) is effective for public companies that do not file as small business issuers as of the beginning of the first interim or annual reporting period that begins after June 15, 2005 (i.e., third quarter 2005 for the Company). All public companies must use either the modified prospective or the modified retrospective transition method. Early adoption of this Statement for interim or annual periods for which financial statements or interim reports have not been issued is encouraged. The Company has not yet evaluated the impact of adoption of this pronouncement that must be adopted in the third quarter of fiscal year 2005.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4," ("SFAS 151") which clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005 and the Company will adopt this standard in its fourth quarter of fiscal 2005. The Company has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not hold any investments or assets outside of the United States. However, we are exposed to financial market risks, including changes in foreign currency exchange rates and interest rates.

We estimate that about 80% of our transactions are denominated in U.S. dollars, excepting those sales in Euros to two of our customers in Europe. Accordingly, beginning in 2001, we became subject to foreign currency risk with respect to future costs or cash flows from our sales in Euros. We have adjusted our prices with our customers to reflect the change in the exchange rate and do not expect to be subject to material foreign currency risk, accordingly, with respect to those sales. As a result, to date, we have not entered into any foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange. We incurred a net foreign currency transaction gain of $154,583, $149,110 and $2,858 in 2004, 2003 and 2002, respectively. Our pricing for our products sold in Euros is currently at the rate of 1.25 to 1.00 Euros relative to the U.S. dollar, and at December 31, 2004, according to information available from the Pacific Exchange Rate Service, the exchange rate for the Euro relative to the U.S. dollar was 1.3536. A 10% change in the value of the Euro from 1.25 Euros relative to the United States dollar would cause approximately an $8,000 foreign currency translation adjustment in an average month, a type of other comprehensive income (loss), which would be a direct adjustment to stockholders' equity.

Our revolving line of credit bears interest based on interest rates tied to the LIBOR rate, which may fluctuate over time based on economic conditions. As a result, we are subject to market risk for changes in interest rates and could be subjected to increased or decreased interest payments if market rates fluctuate and we are in a borrowing mode.

Color Imaging's investment policy requires investments with high credit quality issuers and limits the amount of credit exposure to any one issuer. Investments made by Color Imaging will principally consist of U.S. government and government agency obligations and investment-grade, interest-bearing corporate debt securities with varying maturity dates of five years or less. Because of the credit criteria of the Color Imaging's investment policies, the primary market risk associated with these investments is interest rate risk. Color Imaging does not use derivative financial instruments to manage interest rate risk or to speculate on future changes in interest rates. During 2004 Color Imaging made investments from $0.4 million to $1.7 million that resulted in interest income of $17,502 with some $1,048,087, all of which were available-for-sale securities invested as of December 31, 2004. During 2003 Color Imaging made investments that resulted in interest income of $5,586 with some $1,421,000 in available-for-sale securities as of December 31, 2003. Color Imaging did not have any monies invested in securities at December 31, 2002.

Management believes that a reasonable change in raw material prices could have a material impact on future earnings or cash flows, because we generally are not able to offset increases to our costs with higher prices for our products.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following documents are filed as part of this Annual Report on Form 10-K:

Page

Financial Statements:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF COLOR IMAGING, INC.
NORCROSS, GEORGIA

We have audited the accompanying consolidated balance sheets of Color Imaging, Inc. (a Delaware corporation) and subsidiary as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed on the Index of Item 15(a). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Color Imaging, Inc. and subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the Unites States of America.

LAZAR LEVINE & FELIX LLP

New York, New York
February 11, 2005

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COLOR IMAGING, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004
- ASSETS -	
CURRENT ASSETS:	
Cash	$ 2,044,989
Accounts receivable - net of allowance for doubtful accounts of $93,201 and $67,839 for 2004 and 2003, respectively	2,412,354
Inventories	4,854,939
Related party portion of IDR bond - current	92,664
Other current assets	106,618
TOTAL CURRENT ASSETS	9,511,564
PROPERTY, PLANT AND EQUIPMENT - NET	6,601,832
OTHER ASSETS:	
Related party portion of IDR bond	554,764
Other assets	27,864
	582,628
	$ 16,696,024
- LIABILITIES & STOCKHOLDERS' EQUITY -	
CURRENT LIABILITIES:	
Revolving credit lines	$ --
Accounts payable	1,625,282
Current portion of notes payable	6,071
Current portion of notes payable - related parties	67,816
Current portion of bonds payable	390,000
Other current liabilities	7,500
TOTAL CURRENT LIABILITIES	2,096,669
LONG TERM LIABILITIES:	
Notes payable	5,438
Notes payable - related parties	--
Bonds payable	2,335,000
Deferred tax liability	602,450
TOTAL LONG TERM LIABILITIES	2,942,888
TOTAL LIABILITIES	5,039,557

COMMITMENTS & CONTINGENCIES

STOCKHOLDERS' EQUITY:	
Common stock, $.01 par value, authorized 20,000,000 shares; 12,690,305 and 12,730,505 shares issued and outstanding on December 31, 2004 and 2003, respectively	126,903
Additional paid-in capital	12,681,472
Accumulated deficit	(1,151,908)
	11,656,467
	$ 16,696,024

See notes to consolidated financial statements.

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COLOR IMAGING, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Year Ended December 31,		
	2004	2003	2002
SALES	$ 21,834,829	$ 21,057,601	$ 28,000,309
COST OF SALES	16,283,031	15,789,078	23,421,429
GROSS PROFIT	5,551,798	5,268,523	4,578,880
OPERATING EXPENSES:			
Administrative	1,373,694	1,679,576	1,312,317
Research and development	1,171,502	1,176,085	946,848
Sales and marketing	2,370,767	1,745,812	1,331,454
	4,915,963	4,601,473	3,590,619
INCOME FROM OPERATIONS	635,835	667,050	988,261
OTHER INCOME (EXPENSE):			
Interest and other income	229,588	219,059	47,201
Interest and financing costs	(90,160)	(164,438)	(330,606)
	139,428	54,621	(283,405)
INCOME BEFORE PROVISION FOR INCOME TAXES	775,263	721,671	704,856
PROVISION FOR INCOME TAXES	311,000	288,700	274,246
INCOME FROM CONTINUING OPERATIONS	464,263	432,971	430,610

(LOSS) FROM OPERATIONS OF SUBSIDIARY DISPOSED OF - NET OF INCOME TAX	--	--	(261,326)
NET INCOME	$ 464,263	$ 432,971	$ 169,284
INCOME (LOSS) PER COMMON SHARE:			
Basic:			
Continuing operations	$ .04	$ .04	$ .04
Discontinued operations	--	--	(.02)
Basic earnings per share	$ .04	$ .04	$ .02
Diluted:			
Continuing operations	$ .04	$ .04	$ .04
Discontinued operations	--	--	(.02)
Diluted earnings per share	$ .04	$ .04	$ .02
Weighted average shares outstanding:			
Basic	12,703,575	11,966,981	9,686,429
Diluted	12,710,306	11,979,554	9,686,429

See notes to consolidated financial statements.

COLOR IMAGING, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	STOCK SUBSCRIPTIO RECEIVABLE
Balance at December 31, 2001	10,099,175	$ 100,992	$ 9,873,939	$ (149,000)
Stock subscription received	--	--	(5,649)	149,000
Exercise of stock warrants - cashless	38,790	388	(388)	--
Common stock, exchanged for subsidiary disposed of	(1,700,000)	(17,000)	(2,661,993)	--
Net income for the year	--	--	--	--

Balance at December 31, 2002	8,437,965	84,380	7,205,909	--
Stock subscription received	4,500,000	45,000	5,855,584	--
Common stock, repurchased and retired	(207,460)	(2,075)	(353,125)	--
Net income for the year	--	--	--	--
Balance at December 31, 2003	12,730,505	127,305	12,708,368	--
Common stock, repurchased and retired	(40,200)	(402)	(26,896)	--
Net income for the year	--	--	--	--
Balance at December 31, 2004	12,690,305	$ 126,903	$12,681,472	$ --

See notes to consolidated financial statements.

COLOR IMAGING, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	YEAR ENDED DECEM	
	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES:		
Income from continuing operations	$ 464,263	$ 432,971
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	593,801	537,369
Deferred income taxes	309,750	292,700
Allowance for doubtful accounts	45,000	3,661
(Increase) decrease in:		
Accounts receivable	(515,950)	444,955
Inventory	769,389	(544,091)
Prepaid expenses and other assets	272,217	251,468
Due from related party - IDR bond	87,912	83,160
Increase (decrease) in:		
Accounts payable and accrued liabilities	(1,174,492)	(1,244,188)
Net cash provided by continuing operations	851,890	258,005

Net cash (used) by discontinued operations	--	--
NET CASH PROVIDED BY OPERATING ACTIVITIES	851,890	258,005
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(221,799)	(473,093)
NET CASH (USED IN) INVESTING ACTIVITIES:	(221,799)	(473,093)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (payments) borrowings under line of credit	--	(1,022,470)
Principal payments of long-term debt	(5,612)	(1,336,335)
Principal payments of IDR bond	(370,000)	(350,000)
Proceeds from related party borrowing	--	--
Principal repayments to related party	(396,022)	(536,162)
Proceeds from sale of stock	--	5,900,584
Payments for the repurchase of common stock and warrants	(27,298)	(355,200)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(798,932)	2,300,417
NET INCREASE (DECREASE) IN CASH	(168,841)	2,085,329
Cash at beginning of year	2,213,830	128,501
CASH AT END OF YEAR	$ 2,044,989	$ 2,213,830
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 78,547	$ 147,694
Income taxes	--	--
NONCASH ITEMS:		
Common stock issued	$ --	$ --

See notes to consolidated financial statements.

COLOR IMAGING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002

NOTE 1. DESCRIPTION OF COMPANY:

Color Imaging, Inc., (Color) develops, manufactures and markets products used in electronic photocopying and printing. Color designs, manufactures and delivers black text toners, specialty toners, including color and MICR (magnetic characters used on checks and other financial documents). Color also supplies other consumable products used in electronic printing and photocopying, including toner cartridges, cartridge components, photoreceptors, imaging drums and parts.

See Note 3 regarding Discontinued Operations - Disposal of Logical Imaging Solutions.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(A) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and its now discontinued subsidiary. All significant inter-company balances and transactions have been eliminated in consolidation.

(B) ESTIMATES AND ASSUMPTIONS:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in Color's financial statements and accompanying notes. Management bases its estimates on certain assumptions, which they believe are reasonable in the circumstances, and does not believe that any change in those assumptions would have a significant effect on the financial position or results of operations. Actual results could differ from those estimates.

(C) FAIR VALUE FINANCIAL INSTRUMENTS:

The carrying amount of cash and cash equivalents, trade receivables and payables approximates fair value because of the short maturity of those instruments. The carrying value of the Company's debt is considered to approximate the fair value of these instruments based on the borrowing rates currently available to the Company for loans with similar terms and maturities.

(D) CONCENTRATION OF CREDIT RISK:

Financial instruments, which potentially subject the Company to concentrations of credit risk, are cash equivalents, marketable securities and accounts receivable. The Company attempts to limit its credit risk associated with cash equivalents and marketable securities and at December 31, 2004 its investments were in cash held in highly rated financial institutions. With respect to accounts receivable, the Company limits its credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring cash in advance, payment by credit card, letters of credit or guarantees. The Company's customer base is comprised principally of domestic distributors and dealers of copier supplies and re-manufacturers of laser printing consumable products. The Company's international customers are comprised principally of an OEM and a large international distributor. Management does not believe significant risk exists in connection with the Company's concentrations of credit at December 31, 2004.

(E) CASH AND CASH EQUIVALENTS:

The Company considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

(F) ACCOUNTS RECEIVABLE:

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of $93,201 and $67,839 at December 31, 2004 and 2003, respectively.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(G) INVENTORIES:

Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out (FIFO) method for raw materials, work-in-process and finished goods. Consideration is given to deterioration, obsolescence and other factors in evaluating the estimated market value of inventory based upon management's judgment and available information. Costs in inventory include materials, direct labor, and applied manufacturing overhead.

(H) PROPERTY, PLANT AND EQUIPMENT:

Property, plant, and equipment are recorded at cost. Replacements and major improvements are capitalized; maintenance and repairs are expensed as incurred. Gains or losses on asset dispositions are included in the determination of net income.

Depreciation of the Company's property, plant, and equipment is computed using the straight-line method. The average estimated useful lives are as follows:

	Years
Leasehold improvements	10
Machinery and equipment	5 - 20
Furniture and fixtures	7 - 10
Test and computer equipment	5 - 10

(I) INTANGIBLE ASSETS:

Intangible assets are comprised of patents and intellectual property. All intangible property is amortized by the straight-line method, over their respective useful lives, commencing upon completion of commercialization. Intangibles are periodically reviewed to assess recoverability from future operations using undiscounted cash flows in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". To the extent carrying values exceed fair values, an impairment loss is recognized in operating results.

(J) STOCK-BASED COMPENSATION:

The Company applies the intrinsic-value based method of accounting prescribed by Accounting Principles Board (APB) No. 25, "Accounting for Stock Issued to Employees", and related interpretations, in accounting for its stock-based compensation plans and accordingly, no compensation cost has been recognized for its stock options in the financial statements. The Company has elected not to implement the fair value based accounting method for employee stock options under SFAS No. 123, "Accounting for Stock-Based Compensation", but has elected to disclose the pro forma net income (loss) per share for employee stock option grants made beginning in fiscal 1997 as if such method had been used to account for stock-based compensation costs described in SFAS No. 148 "Accounting for Stock Based Compensation-Transition and Disclosure", an amendment of SFAS No. 123. (SFAS No. 123 was further amended - see Note (R) below - Recent Accounting Pronouncements.)

The Company has determined pro forma net earnings and net earnings per share information as if the fair value method described in SFAS No. 123, "Accounting for Stock-Based Compensation," had been applied to its employee stock-based compensation. The fair value of stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Risk-free interest rate	3.00%	2.68%	2.35%
Dividend yield	0.00%	0.00%	0.00%
Expected market price volatility factor	2.26	2.42	0.88
Weighted-average expected life of option	3 years	3 years	3 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(J) STOCK-BASED COMPENSATION (CONTINUED):

The following table illustrates the effect on net income and net income per share as if the fair value based method had been applied to all outstanding and vested awards in each period:

	2004	2003	2002
Net income, as reported	$ 464,263	$ 432,971	$ 169,284
Less: Pro forma stock based compensation expense - net of tax	94,756	80,908	65,457
Pro forma net income	$ 369,507	$ 352,063	$ 103,827
Basic Earnings per share:			
As reported	$ .04	$ .04	$ .02
Pro forma	.03	.03	.01
Diluted Earnings per share:			

As reported	$ .04	$ .04	$ .02
Pro forma	.03	.03	.01

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the average vesting period of the options.

(K) INCOME TAXES:

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carry forwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such asset will be realized.

(L) REVENUE RECOGNITION:

The Company recognizes revenues in accordance with Staff Accounting Bulletin 104, Revenue Recognition in Financial Statements (SAB104).

The Company designs, manufactures and acquires from third parties and sells toner and parts used in electronic printing and photocopying. Revenue from such product sales is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. At this time the earnings process is complete and the risks and rewards of ownership have transferred to the customer, which is generally when the goods are shipped and all significant obligations of the Company have been satisfied.

(M) ADVERTISING COSTS:

In accordance with SOP No. 93-7, Reporting on Advertising Costs, the Company expenses all advertising expenditures as incurred. The Company incurred $158,253, $146,255 and $106,077 in advertising costs during 2004, 2003 and 2002, respectively.

(N) RESEARCH AND DEVELOPMENT EXPENSES:

Research and development costs are charged to expense when incurred and aggregated $1,171,502, $1,176,085 and $946,848 for 2004, 2003 and 2002, respectively, from continuing operations.

(O) SHIPPING AND HANDLING COSTS:

Shipping and handling costs of $122,566, $107,423 and $83,879 in 2004, 2003 and 2002, respectively, are included in sales and marketing expense.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(P) EARNINGS (LOSS) PER COMMON SHARE:

Earnings per common share are calculated under the provisions of SFAS No. 128, "Earnings per Share". SFAS No. 128 requires the Company to report both basic earnings per share, which is based on the weighted-average number of common shares outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding plus all potential dilutive common shares outstanding.

(Q) FOREIGN CURRENCY TRANSACTIONS:

During 2001, the Company began selling its products in certain overseas markets where the prices were denominated in Euros. All balance sheet accounts resulting from foreign transactions are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date and statements of operations items are translated at the weighted average exchange rates for the year. The resulting translation adjustments are made directly to a separate component of stockholders' equity. Gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables (or payables) are included in the consolidated statements of operations. As of December 31, 2004, there were no material balance sheet items resulting from foreign currency transactions. Aggregated gains of $154,583, $149,110 and $2,858 from the settlement of foreign receivables were recognized for the 2004, 2003 and 2002 years, respectively, and are included in other expense on the statements of operations.

(R) DEFERRED CHARGES:

The Company, in connection with an offering of its securities, incurs certain costs that are deferred and then charged against the proceeds of the offering or charged to expense in the event the offering is not completed.

The Company also defers certain expenditures related to the activities associated with the acquisition of business assets, which the Company has determined have a future economic benefit. These expenditures are then capitalized into the cost of the assets upon acquisition. Management reviews these assets whenever the circumstances and situations change such that there is an indication that the carrying amount is not recoverable. When management's best estimate of the future economic benefit of these assets is less than the carrying amount, the carrying amount is reduced to the fair value and a write-off is recognized. Deferred charges written off are not restored.

(R) RECENT ACCOUNTING PRONOUNCEMENTS:

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), "Shared-Based Payment." Statement 123(R) addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Statement 123(R) requires an entity to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the income statement. The revised Statement generally requires that an entity account for those transactions using the fair-value-based method, and eliminates the intrinsic value method of accounting in APB Opinion No. 25, "Accounting for Stock Issued to Employees", which was permitted under Statement 123, as originally issued.

The revised Statement requires entities to disclose information about the nature of the share-based payment transactions and the effects of those transactions on the financial statements.

Statement 123(R) is effective for public companies that do not file as small business issuers as of the beginning of the first interim or annual reporting period that begins after June 15, 2005 (i.e., third quarter 2005 for the Company). All public companies must use either the modified prospective or the modified retrospective transition method. Early adoption of this Statement for interim or annual periods for which financial statements or interim reports have not been issued is encouraged. The Company has not yet evaluated the impact of adoption of this pronouncement, which must be adopted in the third quarter of fiscal year 2005.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4," ("SFAS 151") which clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005 and the Company will adopt this standard in its fourth quarter of fiscal 2005. The Company has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations.

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NOTE 3. DISCONTINUED OPERATIONS:

On September 30, 2002, the Company completed a share exchange agreement with Digital Color Print, Inc. and four of its former directors, whereby the Company received 1.7 million shares of its common stock in exchange for all of the shares of the common stock of its subsidiary, Logical Imaging Solutions, Inc., ("Logical"). Based upon guidance provided by APB 29 in connection with accounting for non-monetary transactions, the fair value of the 1.7 million shares of common stock received was $2,678,993; the fair value (approximating the net book value) of Logical plus the transaction costs incurred.

Logical designed, manufactured and delivered complete printing systems, including software, control units and print engines to its customers. Logical's development efforts focused on creating a digital variable printing process that provides high-speed, color printing systems for commercial applications. Following is summary financial information for Logical:

	Nine Months Ended September 30, 2002
Net sales	$ 464,628
Loss before taxes	(406,570)
Income tax benefit	(145,244)
Net loss from discontinued operations	$ (261,326)

Pursuant to the share exchange agreement, the Company also received a warrant to purchase approximately 15% of the then outstanding common stock of Digital Color Print, Inc. or Logical Imaging Solutions, Inc. The warrant was not assigned any value, since it is not cashless, increases from $1.50 to $2.25 and then to $3.25 per share each year over three years, expires after three years, is not registered for resale and has no current market.

In addition, the share exchange agreement, as amended, also provided that Mr. Brennan's (the Company's former chief executive officer) employment agreement would be immediately terminated upon the transaction's closing and severance of $6,058 per two-week period, plus reimbursement of health and life insurance premium costs formerly payable through June 10, 2003 will terminate as of March 10, 2003.

The financial statements and related notes presented herein have been restated to reflect discontinued operations accounting as a result of this transaction.

NOTE 4. INVENTORIES:

Inventories for continuing operations consisted of the following components as of December 31, 2004 and 2003:

	2003	2003
Raw materials	$ 945,311	$ 631,960
Work-in-process	1,464,875	1,715,684
Finished goods	2,526,370	3,374,773
Obsolescence allowance	(81,617)	(98,089)
Total	$ 4,854,939	$ 5,624,328

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NOTE 5. PROPERTY AND EQUIPMENT:

Property and equipment of continuing operations consisted of the following as of December 31, 2004 and 2003:

	2004	2003
Furniture and fixtures	$ 120,080	$ 112,159
Test and computer equipment	1,003,925	712,176
Manufacturing machinery and equipment	6,727,889	6,805,761
Leasehold improvements	1,364,608	1,364,608
	9,216,502	8,994,704
Less: accumulated depreciation and amortization	(2,614,670)	(2,020,870)
	$ 6,601,832	$ 6,973,834

Depreciation and amortization expense amounted to $593,801, $537,369 and $542,661 in 2004, 2003 and 2002, respectively.

NOTE 6. RELATED-PARTY TRANSACTIONS:

(A) LEASE:

Directors, Jui-Hung Wang, Jui-Kung Wang, Sueling Wang and Jui-Chi Wang, own Kings Brothers, LLC, the landlord from whom the Company leases its Norcross, Georgia, plant. The real property lease agreement between the Company and Kings Brothers, LLC, was entered into on April 1, 1999, and was amended on February 5, 2003, extending the expiration date from March 31, 2009 to March 31, 2013 (the Related Party - see Note 8). The rental payments for 2004, 2003 and 2002 were $544,728, $531,444 and $518,484, respectively.

Minimum annual lease commitments are as follows:

2005	$ 558,346
2006	572,305
2007	586,612
2008	601,278
2009	616,310
2010	631,717
Thereafter	1,481,282
Total minimum lease payments	$ 5,047,850

(B) PURCHASES:

The Company purchases copier and laser printer products from an entity in which three directors have a beneficial ownership interest. Purchases for the 2004, 2003 and 2002 years aggregated $4,028,303, $2,091,785 and $2,148,279, respectively. See also Note 14.

NOTE 6. RELATED-PARTY TRANSACTIONS (CONTINUED):

(C) NOTES PAYABLE:

On March 14, 2002, the Company borrowed $500,000 from director, Sueling Wang, on an unsecured basis. The interest rate on the loan was 12% per annum, matured on March 14, 2003 and is evidenced in writing. On September 2, 2002, the note was modified to extend the term to March 1, 2005, provide for a $100,000 principal payment, decreased the interest rate to 6% per annum, provided for interest only payments through February 28, 2003, and 24 monthly payments of principal and interest beginning on April 1, 2003, in the amount of $17,735.67. The Company borrowed the $500,000 to meet a supplier commitment for product. Interest paid Sueling Wang on the note for the years ended December 31, 2004, 2003 and 2002 was $3,607, $14,641 and $36,296, respectively. As of December 31, 2004 and 2003, the principal outstanding was $15,000 and $105,000, respectively.

On August 21, 2002, the Company borrowed $100,000 from director, Jui-Chi Wang, on an unsecured basis. The loan bears interest at the rate of 6% per annum, mature on March 1, 2005 and is evidenced in writing. The Company borrowed this amount in order to repay $100,000 borrowed from director Sueling Wang on March 14, 2002. The note is interest only through February 28, 2003, and then is fully amortizing over 24 months with principal and interest payments payable monthly beginning April 1, 2003 in the amount of $4,434. As of December 31, 2004, 2003 and 2002, the interest accrued and paid on the note was $2,203, $ 5,115 and $2,170, respectively. As of December 31, 2004 and 2003, the outstanding principal balance on the note was $8,803 and $59,806, respectively.

On August 21 and September 2, 2002, the Company borrowed $200,000 and $300,000, respectively, from director, Jui-Hung Wang, on an unsecured basis. The loan bears interest at the rate of 6% per annum, mature on March 1, 2005 and is evidenced in writing. The Company borrowed this amount in order to make a principal payment due on its industrial development bond in the approximate amount of $255,000, for the acquisition of capital equipment in the approximate amount of $125,000 and for general corporate purposes. The note is interest only through February 28, 2003, and then is fully amortizing over 24 months with principal and interest payments payable monthly beginning April 1, 2003 in the amount of $22,169.60. As of December 31, 2004, 2003 and 2002, interest accrued and paid on the note was $11,017, $ 25,577 and $10,259, respectively. As of December 31, 2004 and 2003, the principal outstanding was $44,013 and $299,032, respectively.

(D) COMMON STOCK

On March 6, 2003, the Company received from Chi Fu Investment Co Ltd $6,075,000 of gross subscription proceeds for the public sale of 4,500,000 of its common shares at a price of $1.35 per share in its offering on Form SB-2 filed with the Securities and Exchange Commission. Chi Fu Investment Co Ltd is a wholly owned subsidiary of the Company's affiliate, General Plastic Industrial Co., Ltd, and as of December 31, 2004, Company directors Jui-Hung Wang, Jui-Chi Wang and Jui-Kung Wang each owned 8.0%, 8.4% and 1.8%, respectively, of General Plastic Industrial Co., Ltd. ("GPI").

(E) MARKETING AND LICENSE AGREEMENT

On June 1, 2003, the Company entered into a Marketing and Licensing Agreement with a foreign affiliate, GPI. Per the Marketing and Licensing Agreement the affiliate agrees to indemnify and hold harmless the Company for any costs and expenses arising from any defective licensed product, and/or any recalled licensed product including litigation arising therefrom. Further the affiliate agrees to credit the Company for product cost, shipping and related expenses arising from any defective licensed product, and/or any recalled licensed product. Effective April 1, 2004, the parties agreed to amend the Marketing and Licensing Agreement to reduce the costs of the product to the Company and to include a royalty payment by the Company to the affiliate based on the net profit realized upon the sale of the products, after certain marketing expenses of the Company. Royalty payments for this nine month period in 2004 aggregated $86,073.

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NOTE 7. BORROWING ARRANGEMENTS:

The Company has a $1.5 million revolving line of credit, as amended, with a sub-limit for letters of credit of $500,000 and an outstanding balance of $0 as of December 31, 2004, bearing interest at the one-month Libor interest rate in effect two business days before the first day of the month plus 2.50%. As of December 31, 2004, the interest rate was the one-month Libor rate of 2.28% plus

2.50% (4.78%). This revolving line of credit has a June 30, 2005 expiration date.

Under the line of credit, the Company is permitted to borrow up to 75% of eligible accounts receivable and 50% of eligible inventories (up to a maximum of $750,000 and not to exceed 50% of the total outstanding). On February 6, 2004, the Bank issued an irrevocable standby letter of credit in the amount of $1.5 million for the benefit of a non-affiliated foreign supplier. On January 5, 2005, the irrevocable standby letter of credit was amended and reduced by $500,000 to $1 million. The letter of credit has an expiration date of June 30, 2005. The Company has granted the Bank a security interest in all of the Company's assets as security for the repayment of the line of credit. The Bank agreement also contains various covenants that the Company is required to maintain, and as of December 31, 2004, the Company was in compliance with these covenants.

Long-term debt was comprised of the following as of December 31,

	2004	2003
Note maturing in 2005	$ 11,509	$ 17,121
	11,509	17,121
Less current maturities	6,071	5,612
	$ 5,438	$ 11,509

The aggregate scheduled maturities of long-term debt for each of the next two years are as follows:

2005	$ 6,071
2006	5,438
Total	$ 11,509

NOTE 8. INDUSTRIAL DEVELOPMENT REVENUE BOND:

On June 1, 1999, the Development Authority of Gwinnett County (the Authority) issued $4,100,000 of industrial development revenue bonds on behalf of the Company and a Related Party. The 3.07%, inclusive of the 1% letter of credit fee annually, revenue bonds as of December 31, 2004, are payable in varying annual principal and monthly interest payments through July 2019. The bond is secured by all the assets of the Company and by real property owned by the Related Party. The bonds along with the line of credit and term loan (see Note 6) are held by two related financial institutions.

A loan agreement between the Authority and the Company and a Related Party allows funds to effectively pass through the Authority to the Company. The majority of the proceeds, $3,125,872, were used by the Company to purchase and install certain manufacturing equipment, while $974,128 was used by the Related Party to pay down the mortgage on the real property leased to the Company (see Note 6). The Company and the Related Party are jointly obligated to repay any outstanding debt. Under the Joint Debtor Agreement of June 28, 2000, between the Company and the Related Party, each has agreed to be responsible to the other for their share of the bond obligations and that any party causing an act of default shall be responsible for 100% of the bond obligations. The amount for which the Related Party is responsible to the Company is reflected in current and other assets of the Company. The Related Party amounts owed to the Authority are secured by a lien on the real property leased by the Company and by personal guarantees executed by members of the Related Party. At this time, the Company believes that the Related Party portion of the bond is fully collectible. As of December 31, 2004, the bond principal outstanding was $2,725,000 and the portion due from the Related Party was $647,428.

NOTE 8. INDUSTRIAL DEVELOPMENT REVENUE BOND (CONTINUED):

The aggregate maturities of bonds payable for each of the next five years and thereafter are as follows:

	Company	Related Party	Total
2005	$ 297,336	$ 92,664	$ 390,000
2006	308,772	96,228	405,000
2007	453,628	141,372	595,000
2008	60,992	19,008	80,000
2009	64,804	20,196	85,000
Thereafter	892,040	277,960	1,170,000
Total	$2,077,572	$ 647,428	$ 2,725,000

NOTE 9. STOCKHOLDERS EQUITY:

(A) COMMON STOCK AND STOCK WARRANTS:

The Company issued an aggregate of 6,000,000 shares of its common stock to the stockholders of Logical and Image in exchange for their shares in Logical and Image in a merger transaction consummated in 2000. Simultaneously, in 2000, the Company affected a reverse stock split of one for 6.0779 shares of common stock.

As part of the merger, the Company granted warrants (the New Warrant) to purchase up to 100,000 shares of the common stock of the Company to professional advisors to the merger. The New Warrant entitles the warrant holder to purchase, at any time and for a five-year period, a share of common stock of the Company for $2.00 per share. In addition, original stockholders of Logical at December 31, 2001, own 225,507 similar warrants (the Old Warrant).

The Old Warrant entitled the warrant holder to purchase, at any time until September 15, 2002, a share of common stock of the Company for $2.70 per share. As of December 31, 2002 and 2001, the Company had received $0 and $110,904, respectively, in proceeds from the exercise of Old Warrants. During August 2002 seven holders of Old Warrants were issued 38,085 shares of the Company's common stock for having exercised Old Warrants to purchase 157,116 shares of the Company's common stock, on a cashless basis, and on September 15, 2002, Old Warrants to purchase 12,939 shares of the Company's common stock expired.

The Company issued Units consisting of common stock and common stock underlying warrants to investors in a private placement approved by the Board of Directors on August 29, 2000. Each Unit in the private placement was priced at $2.00 and consisted of one common share of the Company's common stock and one warrant to purchase one share of common stock at an exercise price of $2.00. An additional warrant to purchase common stock of the Company, for each Unit purchased in the private placement, was issued to subscribers, at no additional cost, whose investment(s) aggregated at least $300,000. The warrants expired November 30, 2003. During 2001, the Company issued and sold 1,437,960 Units for a total of $2,925,920 in cash and notes receivable. The Company also issued, at no additional cost, 1,312,960 additional warrants during this same period. In March 2002, subsequent to the balance sheet date of December 31, 2001, the Company rescinded one transaction entered into during 2001 for the sale of 25,000 shares of common stock and warrants to purchase 25,000 shares of the common stock of the Company. This transaction was retroactively reflected in the financial statements as of December 31, 2001. The Company paid fees of $59,520 in connection with the private placement. Additionally, the Company issued 129,837 warrants to finders to purchase the Company's common stock at an exercise price of $2.00. During 2001, holders of the Company's warrant exercised 2,462,500 warrants on a cashless basis and received 1,104,815 shares of the Company's common stock. During 2002, holders of the Company's warrant exercised 1,750 warrants on a cashless basis and received 705 shares of the Company's common stock. No underwriting discounts or commissions were paid to any person. As of March 12, 2002, all notes receivable have been fully paid by the investors.

On October 30, 2001, the Company issued and sold 1,000,000 shares of its common stock to one accredited investor in exchange for $2 million. The purchase price was $2.00 per share, of which $10,000 was payable in cash and $1,990,000 was payable in the form of a recourse promissory note, payable at the earlier of (i) six months after the registration statement covering the shares is declared effective or (ii) twelve months from the date of the purchase agreement. The Company also agreed to issue up to 500,000 warrants to purchase its common stock to the investor in the event it resells the shares at a purchase price of at least $2.00 per share. These warrants are exercisable for one year at an exercise price of $2 per share. In March 2002, when the shares could not be registered with the Securities and Exchange Commission while the promissory note was unpaid, the Company and the investor mutually rescinded this transaction and the Company retroactively reflected this rescission as of December 31, 2001.

NOTE 9. STOCKHOLDERS EQUITY (CONTINUED):

(A) COMMON STOCK AND STOCK WARRANTS (CONTINUED):

On February 27, 2003, the Company entered into an agreement with a stockholder to repurchase 150,000 shares of common stock and warrants to purchase 300,000 shares of the Company's common stock for an aggregate cost of $300,000. The shares and warrants were to be repurchased in approximately equal installments over nine months, beginning in March and ending in November 2003. From March 24, 2003 through November 30, 2003, the Company repurchased 150,000 of the Company's common shares and warrants to purchase 300,000 common shares, paying $300,000. As of December 31, 2003, all shares and warrants repurchased under this agreement have been cancelled.

On March 4, 2003, the Company completed the repurchase from a stockholder of 12,939 shares of the Company's common stock together with warrants to purchase 25,878 shares of the Company's common stock at an aggregate cost of $25,878. As of December 31, 2003, all shares and warrants repurchased under this agreement have been cancelled.

On March 13, 2003, the Company completed the public sale of 4,500,000 shares of the Company's common stock at a price of $1.35 per share (see Note 6), whereby the Company received $5,900,584 in net proceeds.

On April 18, 2003, the Company established a stock repurchase program under which the Company's common stock, with an aggregate market value up to the lesser of $1 million or 1 million shares, may be acquired in the open market or through private or other transactions through September 30, 2005. As of December 31, 2004 and 2003, the Company has repurchased, cancelled and retired 40,200 and 44,500 shares of its common stock at a cost of $27,298 and $28,835 and at an average price of $0.65 and $0.68 per share, respectively.

(B) STOCK OPTIONS:

After the merger transaction, on June 28, 2000, the Company granted options to acquire 500,000 shares of the common stock of the Company to senior members of the Company's management at an exercise price of $2.00 per share. The options vest over a two to four year period and expire 5 years from their respective date of vesting.

The Company granted options to acquire 710,000 shares of the common stock of the Company to employees, officers and directors at an exercise price of $2.75 per share during the year ended December 31, 2001; 535,000 options were granted to officers and employees of which 25% vested immediately and the remainder vest over 3 years. The officer and employee options expire 5 years from their respective date of vesting. Each outside director of the Company was granted options to acquire 25,000 shares of the common stock of the Company, for a total of 175,000 options, effective upon his or her election or appointment to the board of directors. The outside director options vest over 5 years, beginning with the first anniversary date of his or her appointment to the board, and expire 3 years from their respective date of vesting.

On July 8, 2002, the Company granted options to acquire 100,000 shares of the common stock of the Company to an officer at an exercise price of $2.00 per share of which 25% vested immediately and the remainder vest over 3 years. The options expire 5 years from their respective date of vesting.

On April 18, 2003, the Company granted options to two directors to purchase 25,000 shares of the Company's common stock at an exercise price of $.45 per share. The options vest at the rate of 5,000 per year beginning on the first anniversary date of the grant and continuing annually thereafter and expire three years from their respective date of vesting. On June 2, 2003, the Company granted options to an officer to purchase 100,000 shares of the Company's common stock at an exercise price of $.77 per share. The options vest at the rate of 25,000 per year beginning on the date of the grant and continuing annually thereafter and expire five years from their respective date of vesting.

On June 2, 2003, the Company granted options to an officer to purchase 100,000 shares of the Company's common stock at an exercise price of $.77 per share of which 25% vested immediately and the remainder vest over 3 years. The options expire 5 years from their respective date of vesting.

As a result of employment terminations, resignations or retirements, as of December 31, 2003, options to purchase 405,000 shares of common stock by management or our employees have lapsed, and options to purchase 100,000 shares of our common stock granted to directors have lapsed.

On April 1, 2004 the Company granted options to an officer to purchase 100,000 shares of the Company's common stock at an exercise price of $.73 per share. Options to purchase 20,000 shares of the Company's common stock vested immediately and the remainder vest at the rate of 20,000 per year beginning on the first anniversary date of the grant and continuing annually thereafter and expire five years from their respective date of vesting. On May 18, 2004, the Company granted 335,000 options to officers, 50,000 options to non-employee directors and 80,000 options to employees at an exercise price of $0.54. One-half of the options granted vested immediately and the remainder vest equally upon the next two anniversary dates of the grant and expire five years from their respective date of vesting. All stock options were granted at an exercise price equal to the market value of the Company's stock as of the date of grant.

NOTE 9. COMMON STOCK AND EQUIVALENTS (CONTINUED)

(B) OPTIONS (CONTINUED):

A summary of the Company's stock option activity, and related information, follows:

	2004		2003		2002	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	970,000	$2.33	945,000	$2.33	1,210,000	$2.44
Granted	465,000	.58	150,000	.66	100,000	2.75
Exercised	-		-		-	
Terminated	(15,000)	2.75	(125,000)	2.30	(365,000)	2.75
Outstanding at end of year	1,420,000	1.58	970,000	2.08	945,000	2.33
Exercisable at end of year	1,037,500	$1.88	706,260	$2.33	667,500	$2.22
Weighted average fair value of options granted during the year	$0.58		$0.53		$0.98	

The weighted-average remaining contractual life of these options is 5 years.

No compensation expense has been recognized, as all options have been granted with an exercise price equal to the fair value of the common stock upon date of grant. No adjustment has been made for the non-transferability of the options or for the risk of forfeiture at the time of issuance. Forfeitures are instead recorded as incurred.

The following is a summary of total outstanding options and stock warrants at

December 31, 2004:

Range of Exercise Prices	Options and Warrants Outstanding Number	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Options and Warrants Exercisa[ble] Number	Weighted-Avera[ge] Exercise Pric[e]
Options:					
$0.45-$0.77	150,000	$0.66	6.06 years	60,000	$0.72
$0.54-$0.73	465,000	$0.58	5.37 years	202,500	$0.56
$2.00	450,000	$2.00	1.46 years	450,000	$2.00
$2.75	355,000	$2.75	2.74 years	330,000	$2.75
Warrants:					
$2.00	100,000	$2.00	.52 years	100,000	$2.00
Options and warrants	1,520,000	$1.61	3.35 years	1,142,500	$1.89

(C) RETAINED EARNINGS:

The Company is limited in its ability to declare and pay dividends by the terms of certain debt agreements.

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NOTE 10. PENSION PLANS AND POSTRETIREMENT BENEFITS:

The Company has adopted the Color Image, Inc. Profit Sharing Retirement Plan. Under this defined contribution plan, employees with one year or more of service who have worked at least 1,000 hours and have reached age 21 are eligible for participation. Participants may contribute between 1% and 15% of their compensation as basic contributions. The Company will match 50% of the first 3% deferred by any participant. Company contributions vest from 20% in the second year of service to 100% in the sixth year. For the years ended December 31, 2004, 2003 and 2002, the Company incurred expenses of $18,437, $23,532 and $20,783, respectively.

NOTE 11. INCOME TAXES:

The provision for income taxes is composed of the following:

	2004	2003	2002
Current:			
Federal	$ --	$ --	$ 70,538
State	--	--	13,199
Deferred:			
Federal	262,000	243,100	160,482
State	49,000	45,600	30,027

$ 311,000	$ 288,700	$ 274,246

The reconciliation of income tax computed at the U.S. federal statutory tax rate to income tax expense attributable to income from continuing operations is:

	2004	2003	2002
Tax at U.S. statutory rates	34.00%	34.00%	34.00%
State income taxes net of			
Federal tax benefit	5.11	4.02	6.38
Other-net	1.00	1.98	(1.48)
	40.11%	40.00%	38.90%

The components of the net deferred income tax asset as of December 31, 2004 and 2003 are as follows:

	2004	2003
Deferred tax assets:		
Inventory	$ 35,000	$ 40,000
Accounts receivable	40,000	27,000
Accrued expenses	--	4,800
Federal tax credits		--
Net operating loss carry-forward	450,000	683,000
	525,000	754,800
Valuation allowance for deferred tax assets	(112,500)	(334,800)
	412,500	420,000
Deferred tax liabilities:		
Fixed assets	(1,014,950)	(712,700)
Net deferred tax asset (liability)	$(602,450)	$ (292,700)

At December 31, 2004, the Company had net operating loss carry forwards (NOLs) of approximately $1,000,000 for income tax purposes that expire in years beginning 2020. The Company has provided for a 25% valuation allowance against the deferred tax asset generated by its NOL's, since management believes that it is more likely than not that this asset will be realized in the near future.

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NOTE 12. EMPLOYMENT AGREEMENTS:

On June 28 and August 1, 2000, Color Imaging entered into employment agreements with its President and Executive Vice President. Each of the employment agreements has a 5-year term. Color Imaging is obligated to pay the President an annual salary of $150,000 with a guaranteed increase of 5% per annum over the term of the agreement. Color Imaging is obligated to pay the Executive Vice

President an annual salary of $144,000 with a guaranteed increase of 5% over the term of his agreement. Each employee may terminate the agreement upon 6 months notice to Color Imaging. Color Imaging may terminate each employee upon 6 months notice by Color Imaging; provided, however, that Color Imaging is obligated to pay to the employee his annual base salary, commissions or bonuses earned, and benefits for a period of 12 months after the date of such notice.

Each of the officers voluntarily waived the annual increases to their salaries that would have otherwise been payable upon the second anniversary of their respective contracts. The President and Executive Vice President voluntarily agreed to accept reduced annual increases upon the third anniversary of their respective agreements in the amount of 2.5%. On July 14, 2003, the Executive Vice President's employment agreement was modified, giving him the additional duties of marketing and sales, provide for commissions, a reduced base salary of $78,000 per annum and deleting the provision providing for a minimum 5% annual salary increase. On October 1, 2003, the Executive Vice President's employment agreement was again amended to return his base salary to its former level of $151,200 and his commission program on certain sales of Color Imaging was modified. On April 19, 2004, the Executive Vice President's employment agreement was again amended, reducing his base salary to $120,000 and providing for a commission on certain sales of Color Imaging.

The employment agreements with the above named officers also commits Color Imaging to purchasing, for their benefit, certain life insurance plans. Color Imaging pays the premiums and is the collateral assignee of four split dollar life insurance policies owned by the President. Pursuant to the policies, Color Imaging will, upon his death or earlier liquidation of each such policy, be entitled to the refund of all premium payments made by Color Imaging on the policies, and the balance of the proceeds will be paid to the President's designated beneficiaries. During 2003 the President repaid the loan due Color Imaging in connection with the split dollar life insurance policies, Color Imaging then released its collateral assignment of the policies and is no longer required to pay any premiums in connection with the four policies. The split dollar life insurance premiums paid by Color Imaging during 2003 and 2002 were $660 and $22,773, respectively. The amount due from its President in connection with these life insurance policies at the years ended December 31, 2003 and 2002 was $0 and $134,877, respectively. For the periods during which such plans were in place for the Executive Vice President for the years ended December 31, 2003 and 2002 Color Imaging paid or reimbursed the Executive Vice President $5,525 and $6,446, respectively, for such supplemental life insurance plans. On July 14, 2003, the Executive Vice President's employment agreement was amended to delete the provision requiring Color Imaging to pay or reimburse premiums in connection with his supplemental life insurance policy.

On April 1, 2004, the Company hired and entered into a two year employment agreement with the Senior Vice President of Marketing and Sales, providing the employee with an annual salary of $150,000, the lesser of three months severance or the remainder of the term of the agreement if terminated by the Company without cause and granting the employee options to purchase 100,000 shares of the Company's common stock.

NOTE 13. SIGNIFICANT CUSTOMERS:

For the 2004 year, one unrelated distributor of imaging supplies accounted for 24% of net sales from continuing operations. For the 2003 year two unrelated distributors/customers of imaging supplies accounted for 29% and 14% of net sales from continuing operations. For the 2002 year two unrelated distributors/customers of imaging supplies accounted for 47% and 20% of net sales from continuing operations. The Company does not have a written or oral contract with any of these customers. All sales are made through purchase orders.

NOTE 14. SIGNIFICANT SUPPLIERS:

For the years ended December 31, 2004, 2003 and 2002, the Company purchased 34%, 43% and 44%, respectively, of its raw materials and supplies from one unrelated foreign supplier in connection with the sale of copier products. For the years ended December 31, 2004, 2003 and 2002, the Company purchased 30%, 16% and 10%, respectively, of its all-in-one cartridges, components and parts from a related supplier in connection with the sale of both copier and printer products. See also Note 6(b).

NOTE 15. QUARTERLY FINANCIAL DATA (UNAUDITED):

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2004 and 2003 (in thousands, except per share data).

	Quarter			
2004	First	Second	Third	Fourth
Sales, net	$ 5,601	$ 5,669	$ 5,679	$ 4,886
Income from operations	101	287	151	97
Net income	103	198	107	56
Net income per share:				
Basic	.01	.02	.01	.00
Diluted	.01	.02	.01	.00

	Quarter			
2003	First	Second	Third	Fourth
Sales, net	$ 5,629	$ 5,058	$ 5,361	$ 5,010
Income (loss) from operations	213	400	223	(169)
Net income (loss)	112	254	152	(85)
Net income per share:				
Basic	.01	.02	.01	.00
Diluted	.01	.02	.01	.00

NOTE 16. FINANCIAL REPORTING FOR BUSINESS SEGMENTS:

The Company believes that its operations are in a single industry segment involving the development and manufacture of products used in electronic printing. All of the Company's assets are domestic. The sales to unaffiliated customers by geographic region are as follows:

	2004		2003		2002	
United States	$ 11,922,183	55%	$ 12,507,490	59%	$ 17,728,982	63%
Europe/Eastern Europe	5,539,810	25%	4,416,152	21%	5,638,161	20%
Mexico	2,488,963	11%	2,502,831	12%	2,477,862	9%
Asia/Southeast Asia	1,026,517	5%	814,387	4%	1,253,862	5%
Other	857,356	4%	816,741	4%	901,442	3%
Total	$ 21,834,829	100%	21,057,601	100%	$ 28,000,309	100%

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed on our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management does not expect that its disclosure controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, an evaluation of controls may not detect all control issues and instances of fraud, if any, within the Company. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events. The design may not succeed in achieving its stated goals under all potential future conditions. The Company has, however, designed its disclosure controls and procedures to provide, and believes that such controls and procedures do provide, reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The disclosure in this paragraph about inherent limitations of control systems does not modify the conclusions set forth in the next paragraph of the Company's Chief Executive Officer and its Chief Financial Officer concerning the effectiveness of the Company's disclosure controls and procedures.

As of the end of the period covered by this report, December 31, 2004, we carried out an evaluation, under the supervision and with the participation of Color Imaging's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Color Imaging's disclosure controls and procedures. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed on our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

CHANGES IN DISCLOSURE CONTROLS AND PROCEDURES AND ITNERNAL CONTROL OVER FINANCIAL REPORTING

Although we concluded that our disclosures controls and procedures were effective at the end of fiscal 2004 and in each interim period of fiscal 2004, we recognized that further improvements could be made with regard to purchasing and receiving. During 2004 the improvements made to our internal control over financial reporting included: the updating of our policies for disclosure controls and financial reporting and the commencement of the updating of the procedures and tests to be implemented during 2005 in compliance with SOX 404. While management believes that these improvements were important to enhance the Company's ability to comply with its disclosure obligations, management concluded that the Company's system of disclosure controls and procedures was effective at the reasonable assurance level both prior to and after the changes. The Company is not aware of any significant deficiencies or material weaknesses in its internal control during 2004. The Company did not make any material changes in its internal control over financial reporting during the fourth quarter of 2004.

ITEM 9B. OTHER INFORMATION

NONE.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) The consolidated financial statements required by this item are set forth on the pages indicated at Item 8.

(2) Financial Statement Schedule for the years ended December 31, 2004, 2003 and 2002:

Schedule II - Valuation and Qualifying Accounts is set forth below.

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 and 2002

	For the Year Ended December 31,	Balance at Beginning of Year	Charged (credited) to Expense	Write-offs	Ba En
1. ALLOWANCE FOR DOUBTFUL ACCOUNTS					
	2004	$ 67,839	$ 35,000	$ 9,638	$
	2003	64,178	45,000	41,339	
	2002	72,911	--	8,733	
2. RESERVE FOR OBSOLETE INVENTORY					
	2004	$ 98,089	$ 280,000	$ 296,472	$
	2003	34,964	275,000	211,875	
	2002	73,830	240,000	278,866	
3. DEFERRED TAX VALUATION ALLOWANCE					
	2004	$ 334,800	$ 309,750	$ --	$
	2003	--	334,800	--	
	2002	53,760	(53,760)	--	

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(3) Exhibits:

Incorporated by reference herein to Item 15(c) below.

(c) Exhibits:

The following exhibits are filed herewith or incorporated herein by reference:

(a) EXHIBITS

Exhibit No.	Description
2.1	Merger Agreement and Plan of Reorganization dated May 16, 2000, by and between Advatex Associates, Inc., Logical Imaging Solutions Acquisition Corp., Color Imaging Acquisition Corp., Logical Imaging Solutions, Inc., and Color Image, Inc., incorporated by reference to the Registrant's Form 8-K filed on July 17, 2000.
2.2	Amendment No. 1 to the Merger Agreement and Plan of

	Reorganization dated June 15, 2000, incorporated by reference to the Registrant's Form 8-K filed on July 17, 2000.
2.3	Amendment No. 2 to the Merger Agreement and Plan of Reorganization dated June 26, 2000, incorporated by reference to the Registrant's Form 8-K filed on July 17, 2000.
2.4(1)	Share Exchange Agreement dated as of September 11, 2002 between Color Imaging, Inc., Logical Imaging Solutions, Inc., Digital Color Print, Inc., and the shareholders of Digital Color Print, Inc., incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed September 26, 2002.

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Exhibit No.	Description
2.5	Amendment No. 1 to Share Exchange Agreement dated as of September 20, 2002 between Color Imaging, Inc., Logical Imaging Solutions, Inc., Digital Color Print, Inc., and the shareholders of Digital Color Print, Inc., incorporated by reference to Exhibit 2.2 to the Registrant's Form 8-K filed September 26, 2002.
3.1	Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to the Registration statement on Form SB-2 filed July 15, 2002.
3.2	Bylaws, incorporated by reference to the Registrant's Form 10-QSB for the quarter ended March 31, 2002.
4.1	Stock Purchase Agreement between the Company and Wall Street Consulting Corp. dated October 30, 2001, incorporated by reference to Exhibit 4.1 to the Registration statement on Form SB-2 filed May 31, 2002.
4.2	Promissory Note of Wall Street Consulting Corp. dated October 30, 2001, incorporated by reference to Exhibit 4.2 to the Registration statement on Form SB-2 filed May 31, 2002.
4.3	Form of Warrant issued to Selling Stockholders, incorporated by reference to Exhibit 4.3 to the Registration statement on Form SB-2 filed November 28, 2001.
4.4	Development Authority of Gwinnett County, Georgia Industrial Development Trust Indenture dated June 1, 1999, incorporated by reference to Exhibit 4.27 to the Registration statement on Form SB-2 filed May 31, 2002.
4.5	Loan Agreement between the Company, Kings Brothers LLC and the Development Authority of Gwinnett County, Georgia dated June 1, 1999, incorporated by reference to Exhibit 4.28 to the Registration statement on Form SB-2 filed May 31, 2002.
4.6	Joint Debtor Agreement dated June 28, 2000 by and among Color Image, Inc., Kings Brothers, LLC, Dr. Sueling Wang, Jui-Chi Wang, Jui-Kung Wang, and Jui-Hung Wang, incorporated by reference to Exhibit 4.28 to the Registration statement on Form SB-2 filed February 11, 2002.
4.7	First Amendment to Joint Debtor Agreement dated January 1, 2001 by and among Color Imaging, Kings Brothers, LLC, Dr. Sueling Wang, Jui-Chi Wang, Jui-Kung Wang, and Jui-Hung Wang, incorporated by reference to Exhibit 4.29 to the Registration statement on Form SB-2 filed February 11, 2002.
4.8	$500,000 Promissory Note between Color Imaging and Sueling Wang dated March 14, 2002, incorporated by reference to Exhibit 4.34 to the Registration statement on Form SB-2 filed April 11, 2002.
4.9	$500,000 Promissory Note between Color Imaging and Jui Hung Wang

	dated August 21, 2002, incorporated by reference to Exhibit 4.50 to the Registration statement on Form SB-2 filed October 2, 2002.
4.10	$100,000 Promissory Note between Color Imaging and Jui Chi Wang dated August 21, 2002, incorporated by reference to Exhibit 4.51 to the Registration statement on Form SB-2 filed October 2, 2002.
4.11	First Note Modification Agreement between Sueling Wang and Color Imaging dated August 27, 2002, incorporated by reference to Exhibit 4.52 to the Registration statement on Form SB-2 filed October 2, 2002.
4.12	Amended and restated $1,500,000 revolving note between Color Imaging and SouthTrust Bank dated June 16, 2003, incorporated by reference to Exhibit 4.12 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
4.13	Amended and restated loan and security agreement between Color Imaging and SouthTrust Bank dated June 16, 2003, incorporated by reference to Exhibit 4.13 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
4.14	Amendment to Loan Documents between Color Imaging and SouthTrust Bank dated June 29, 2004, incorporated by reference to Exhibit 4.14 to the Registrant's Form 10-Q for the quarter ended June 30, 2004.
10.1*	Employment Agreement between Color Imaging and Dr. Sueling Wang dated June 28, 2000, incorporated by reference to Exhibit 10.2 to the Registration statement on Form SB-2 filed November 28, 2001.
10.2*	Employment Agreement between the Company and Morris E. Van Asperen dated June 28, 2000, incorporated by reference to Exhibit 10.3 to the Registration statement on Form SB-2 filed November 28, 2001.
10.3*	Employment Agreement amendment between the Company and Morris E. Van Asperen dated July 14, 2003, incorporated by reference to Exhibit 10.3 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
10.4*	Employment Agreement amendment between the Company and Morris E. Van Asperen dated April 23, 2004, incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q for the quarter ended March 31, 2004.
10.5*	Second Amendment to the Employment Agreement between the Company and Morris E. Van Asperen dated October 31, 2003 incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q for the quarter ended June 30, 2004.
10.6	Lease Agreement between Color Imaging and Kings Brothers LLC dated April 1, 1999, incorporated by reference to Exhibit 10.5 to the Registration statement on Form SB-2 filed November 28, 2001.
10.7	Amendment No. 1 to Lease Agreement between the Company and Kings Brothers LLC dated April 1, 1999, incorporated by reference to Exhibit10.6 to the Registration statement on Form SB-2 filed November 28, 2001. Imaging and SouthTrust Bank dated June 16, 2003, incorporated by reference to Exhibit 4.12 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
10.8	Commercial Lease Agreement Amendment between Kings Brothers LLC and Color Imaging, Inc. dated February 5, 2003, incorporated by reference to Exhibit 10.13 to the Registrant's Form 10-K for the year ended December 31, 2002.
10.9	Purchase and Sale and Release Agreement between Michael Edson and Color Imaging, Inc. dated February 27, 2003, incorporated by reference to Exhibit 10.14 to the Registrant's Form 10-K for the year ended December 31, 2002.
10.10	Purchase and Sale and Release Agreement between Stephen Chromik and Color Imaging, Inc. dated February 27, 2003, incorporated by reference to Exhibit 10.15 to the Registrant's Form 10-K for the year ended December 31, 2002.
10.11	Form of Indemnification Agreement, incorporated by reference to

the post effective Amendment No. 1 to Form SB-2 filed April 1, 2003.

Exhibit No.	Description
10.12*	Stock Incentive Plan, incorporated by reference to Annex 1 to the Registrant's Definitive Proxy Statement on Schedule 14A filed on May 5, 2003.
10.13++	Marketing and Licensing Agreement between General Plastic Industrial Co Ltd and Color Imaging, Inc. dated as of June 1, 2003 , and amended and restated on November 15, 2004, effective as of April 1, 2004.
10.14*	Employment Agreement between the Company and Patrick J. Wilson dated April 1, 2004, incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended June 30, 2004.
14.1	Code of Ethics for Certain Financial Officers of Color Imaging, Inc. dated December 29, 2003, incorporated by reference to Exhibit 14.1 to the Registrant's Form 10-K for the year ended December 31, 2003.
23.1+	Consent of Lazar Levine & Felix LLP
31.1+	Chief executive officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Chief financial officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Chief executive officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Chief financial officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Filed herewith.

++ The indicated Exhibit was previously filed with Form 10-K for the year ended December 31, 2004.

* Management contract or compensatory arrangement or plan.

(1) Pursuant to Rule 601(b)(2), the schedules and exhibits to this Agreement shall not be filed. A list of the schedules and exhibits is contained on the last page of the Agreement. The Registrant agrees to furnish supplementally a copy of any of the omitted schedules and exhibits to the Securities and xchange Commission upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

COLOR IMAGING, INC.
("Registrant")

Dated: April 8, 2005

By: /s/ Jui-Kung Wang

Jui-Kung Wang
Chief Executive Officer and
Chairman